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### Innovation and Competition Policy, Ch. 3 (2nd ed.): Harm to Competition or Innovation

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## INNOVATION AND COMPETITION POLICY, Ch. 3 (2d ed): HARM TO COMPETITION OR INNOVATION

**Herbert Hovenkamp**

This book of CASES AND MATERIALS ON INNOVATION AND COMPETITION POLICY is intended for educational use. The book is free for all to use subject to an open source license agreement. It differs from IP/antitrust casebooks in that it considers numerous sources of competition policy in addition to antitrust, including those that emanate from the intellectual property laws themselves, and also related issues such as the relationship between market structure and innovation, the competitive consequences of regulatory rules governing technology competition such as net neutrality and interconnection, misuse, the first sale doctrine, and the Digital Millennium Copyright Act (DMCA). Chapters will be updated frequently. The author uses this casebook for a three-unit class in *Innovation and Competition Policy* taught at the University of Iowa College of Law and available to first year law students as an elective. The table of contents is as follows (click on chapter title to retrieve it):

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**INNOVATION AND COMPETITION POLICY:  
CASES AND MATERIALS  
Herbert Hovenkamp**

**CHAPTER 3  
HARM TO COMPETITION OR INNOVATION (2D ED);  
REMEDIES**

**BRUNSWICK CORP. v. PUEBLO BOWL-O-MAT, INC.  
429 U.S. 477 (1977)**

Mr. Justice MARSHALL delivered the opinion of the Court.

This case raises important questions concerning the interrelationship of the antimerger and private damages action provisions of the Clayton Antitrust Act.

Petitioner is one of the two largest manufacturers of bowling equipment in the United States. Respondents are three of the 10 bowling centers owned by Treadway Companies, Inc. Since 1965, petitioner has acquired and operated a large number of bowling centers, including six in the markets in which respondents operate. Respondents instituted this action contending that these acquisitions violated various provisions of the antitrust laws. In the late 1950's, the bowling industry expanded rapidly, and petitioner's sales of lanes, automatic pinsetters, and ancillary equipment rose accordingly. Since this equipment requires a major capital expenditure \$12,600 for each lane and pinsetter, most of petitioner's sales were for secured credit.

In the early 1960's, the bowling industry went into a sharp decline. Petitioner's sales quickly dropped to preboom levels. Moreover, petitioner experienced great difficulty in collecting money owed it; by the end of 1964 over \$100,000,000, or more than 25%, of petitioner's accounts were more than 90 days delinquent. Repossessions rose dramatically, but attempts to sell or lease the repossessed equipment met with only limited success. Because petitioner had borrowed close to \$250,000,000 to finance its credit

sales, it was, as the Court of Appeals concluded, “in serious financial difficulty.”

To meet this difficulty, petitioner began acquiring and operating defaulting bowling centers when their equipment could not be resold and a positive cash flow could be expected from operating the centers. During the seven years preceding the trial in this case, petitioner acquired 222 centers, 54 of which it either disposed of or closed. These acquisitions made petitioner by far the largest operator of bowling centers, with over five times as many centers as its next largest competitor. Petitioner's net worth in 1965 was more than eight times greater, and its gross revenue more than seven times greater, than the total for the 11 next largest bowling chains. Nevertheless, petitioner controlled only 2% of the bowling centers in the United States.

At issue here are acquisitions by petitioner in the three markets in which respondents are located: Pueblo, Colo., Poughkeepsie, N. Y., and Paramus, N. J. In 1965, petitioner acquired one defaulting center in Pueblo, one in Poughkeepsie, and two in the Paramus area. In 1969, petitioner acquired a third defaulting center in the Paramus market, and in 1970 petitioner acquired a fourth. Petitioner closed its Poughkeepsie center in 1969 after three years of unsuccessful operation; the Paramus center acquired in 1970 also proved unsuccessful, and in March 1973 petitioner gave notice that it would cease operating the center when its lease expired. The other four centers were operational at the time of trial.

Respondents initiated this action in June 1966, alleging, *inter alia*, that these acquisitions might substantially lessen competition or tend to create a monopoly in violation of § 7 of the Clayton Act, 15 U.S.C. §18. Respondents sought damages, pursuant to s 4 of the Act, 15 U.S.C. § 15, for three times “the reasonably expectable profits to be made (by respondents) from the operation of their bowling centers.” App. A24. Respondents also sought a divestiture order, an injunction against future acquisitions, and such “other further and different relief” as might be appropriate under s 16 of the Act, 15 U.S.C. § 26.

The Court of Appeals, while endorsing the legal theories upon which respondents' claim was based, reversed the judgment and remanded the case for further proceedings. The court found that a properly instructed jury could have concluded that petitioner was a “giant” whose entry into a “market of pygmies” might lessen horizontal retail competition, because such a “giant” “has greater ease of entry into the market, can accomplish cost-savings by investing in new equipment, can resort to low or below cost sales to sustain itself against competition for a longer period, and can obtain more favorable credit terms.”

The court also found that there was sufficient evidence to permit a jury to conclude that but for petitioner's actions, the acquired centers would have gone out of business. And the court held that if a jury were to make such findings, respondents would be entitled to damages for threefold the income they would have earned. After reviewing the instructions on these issues, however, the court decided that the jury had not been properly charged and that therefore a new trial was required. It also decided that since “an essential predicate” for the District Court's grant of equitable relief was the jury verdict on the § 7 claim, the equitable decree should be vacated as well. And it concluded that in any event equitable relief “should be restricted to preventing those practices by which a deep pocket market entrant harms competition. . . . (D)ivestiture was simply inappropriate.”

The issue for decision is a narrow one. Petitioner does not presently contest the Court of Appeals' conclusion that a properly instructed jury could have found the acquisitions unlawful. Nor does petitioner challenge the Court of Appeals' determination that the evidence would support a finding that had petitioner not acquired these centers, they would have gone out of business and respondents' income would have increased. Petitioner questions only whether antitrust damages are available where the sole injury alleged is that competitors were continued in business, thereby denying respondents an anticipated increase in market shares.

To answer that question it is necessary to examine the antimerger and treble-damages provisions of the Clayton Act. Section 7 of the Act proscribes mergers whose effect “may be substantially to lessen

competition, or to tend to create a monopoly.” (Emphasis added.) It is, as we have observed many times, a prophylactic measure, intended “primarily to arrest apprehended consequences of intercorporate relationships before those relationships could work their evil . . . .”

Section 4, in contrast, is in essence a remedial provision. It provides treble damages to “(a)ny person who shall be injured in his business or property by reason of anything forbidden in the antitrust laws . . . .” Of course, treble damages also play an important role in penalizing wrongdoers and deterring wrongdoing, as we also have frequently observed. It nevertheless is true that the treble-damages provision, which makes awards available only to injured parties, and measures the awards by a multiple of the injury actually proved, is designed primarily as a remedy.

Intermeshing a statutory prohibition against acts that have a potential to cause certain harms with a damages action intended to remedy those harms is not without difficulty. Plainly, to recover damages respondents must prove more than that petitioner violated §7, since such proof establishes only that injury may result. Respondents contend that the only additional element they need demonstrate is that they are in a worse position than they would have been had petitioner not committed those acts. The Court of Appeals agreed, holding compensable any loss “causally linked” to “the mere presence of the violator in the market.” Because this holding divorces antitrust recovery from the purposes of the antitrust laws without a clear statutory command to do so, we cannot agree with it.

Every merger of two existing entities into one, whether lawful or unlawful, has the potential for producing economic readjustments that adversely affect some persons. But Congress has not condemned mergers on that account; it has condemned them only when they may produce anticompetitive effects. Yet under the Court of Appeals' holding, once a merger is found to violate §7, all dislocations caused by the merger are actionable, regardless of whether those dislocations have anything to do with the reason the merger was condemned. This holding would make §4 recovery entirely fortuitous, and would authorize damages for losses which are of no concern to the antitrust laws.

Both of these consequences are well illustrated by the facts of this case. If the acquisitions here were unlawful, it is because they brought a “deep pocket” parent into a market of “pygmies.” Yet respondents' injury the loss of income that would have accrued had the acquired centers gone bankrupt bears no relationship to the size of either the acquiring company or its competitors. Respondents would have suffered the identical “loss” but no compensable injury had the acquired centers instead obtained refinancing or been purchased by “shallow pocket” parents as the Court of Appeals itself acknowledged. Thus, respondents' injury was not of “the type that the statute was intended to forestall.”...

But the antitrust laws are not merely indifferent to the injury claimed here. At base, respondents complain that by acquiring the failing centers petitioner preserved competition, thereby depriving respondents of the benefits of increased concentration. The damages respondents obtained are designed to provide them with the profits they would have realized had competition been reduced. The antitrust laws, however, were enacted for “the protection of competition not competitors,” *Brown Shoe Co. v. United States*, 370 U.S., at 320. It is inimical to the purposes of these laws to award damages for the type of injury claimed here.

Of course, Congress is free, if it desires, to mandate damages awards for all dislocations caused by unlawful mergers despite the peculiar consequences of so doing. But because of these consequences, “we should insist upon a clear expression of a congressional purpose,” before attributing such an intent to Congress. We can find no such expression in either the language or the legislative history of §4. To the contrary, it is far from clear that the loss of windfall profits that would have accrued had the acquired centers failed even constitutes “injury” within the meaning of § 4. And it is quite clear that if respondents were injured, it was not “by reason of anything forbidden in the antitrust laws”: while respondents' loss occurred “by reason of” the unlawful acquisitions, it did not occur “by reason of” that which made the acquisitions unlawful.

We therefore hold that the plaintiffs to recover treble damages on

account of § 7 violations, they must prove more than injury causally linked to an illegal presence in the market. Plaintiffs must prove antitrust injury, which is to say injury of the type the antitrust laws were intended to prevent and that flows from that which makes defendants' acts unlawful. The injury should reflect the anticompetitive effect either of the violation or of anticompetitive acts made possible by the violation. It should, in short, be “the type of loss that the claimed violations . . . would be likely to cause.” *Zenith Radio Corp. v. Hazeltine Research*, 395 U.S., at 125.

We come, then, to the question of appropriate disposition of this case. At the very least, petitioner is entitled to a new trial, not only because of the instructional errors noted by the Court of Appeals that are not at issue here, see n. 6, *supra*, but also because the District Court's instruction as to the basis for damages was inconsistent with our holding as outlined above. Our review of the record, however, persuades us that a new trial on the damages claim is unwarranted. Respondents based their case solely on their novel damages theory which we have rejected. While they produced some conclusory testimony suggesting that in operating the acquired centers petitioner had abused its deep pocket by engaging in anticompetitive conduct, they made no attempt to prove that they had lost any income as a result of such predation. Rather, their entire proof of damages was based on their claim to profits that would have been earned had the acquired centers closed. Since respondents did not prove any cognizable damages and have not offered any justification for allowing respondents, after two trials and over 10 years of litigation, yet a third opportunity to do so, it follows that, petitioner is entitled, in accord with its motion made pursuant to Rule 50(b), to judgment on the damages claim notwithstanding the verdict.

### NOTES AND QUESTIONS

1. The “antitrust injury” doctrine developed in *Brunswick* is not about causation or injury in fact. Clearly the merger that the plaintiff was challenging *caused* it to suffer *harm*. The problem was the kind of harm. The plaintiff was complaining about more competition rather than less, and it would be inimicable to the purpose of antitrust law to use it to restrain

rather than promote competition. Nevertheless, several courts have read *Brunswick* to require little more than harm and causation.

2. One great value of the antitrust injury requirement is that it enables courts to assess complaints without discovery, simply by looking at the theory of injury. For example, just by looking at the plaintiff's complaint in *Brunswick* one can ascertain that the complaint is about increased competition rather than less.

3. In *Cargill, Inc. v. Monfort of Colo., Inc.*, 479 U.S. 104 (1986), the Supreme Court held that the antitrust injury doctrine also applied to requests for an injunction. The lower courts had enjoined the merger of two competitors on the usual ground that it increased concentration and thus made future oligopoly pricing more likely. The Supreme Court ruled that the plaintiff, a competitor, was not entitled to the injunction based on its complaint that after the merger the firm would charge lower but nonpredatory prices. Mergers are ordinarily condemned when the fear is higher prices. Comparing §4 of the Clayton Act, which authorizes damages, and §16, which authorizes injunctions at the behest of private plaintiffs, the Court said:

The wording concerning the relationship of the injury to the violation of the antitrust laws in each section is comparable. [Section 4](#) requires proof of injury "by reason of anything forbidden in the antitrust laws"; [§16](#) requires proof of "threatened loss or damage by a violation of the antitrust laws." It would be anomalous, we think, to read the Clayton Act to authorize a private plaintiff to secure an injunction against a threatened injury for which he would not be entitled to compensation if the injury actually occurred.

**ANDREAS V. VOLKSWAGEN OF AMERICA, INC.**  
**336 F.3d 789 (8<sup>th</sup> Cir. 2003)**

HANSEN, Circuit Judge.

Brian Andreas, an artist and author from Decorah, Iowa, created a drawing in 1994 entitled "Angels of Mercy," which he paired with the accompanying text he authored: "Most people don't know that there are angels whose only job is to make sure you don't get too comfortable & fall asleep & miss your life." The work was copyrighted and copies of it were

included in numerous books. Prints of the work have been sold throughout the United States.

M & S created three television commercials to promote Audi's initial release of the Audi TT coupe into the United States market. One of the television commercials, referred to as the "Wake Up" commercial, depicted an Audi TT coupe in a garden surrounded by angelic looking, neoclassical statues. The commercial contained a voice-over, which says in its entirety: "I think I just had a wake-up call, and it was disguised as a car, and it was screaming at me not to get too comfortable and fall asleep and miss my life." The commercial aired from May through October 1999, when Audi pulled the commercial after the allegation of copyright infringement were brought to its attention.

Andreas brought a copyright infringement action against M & S and Audi....

The district court granted Audi's motion for JAML and vacated the jury's \$570,000 award representing Audi's profits generated by the illegal copyright infringement. The court found that the award was too speculative because Andreas failed to prove a causal connection between the infringement and Audi's profits from the TT coupe. The award equaled 10% of Audi's after-tax profits on the TT coupe sales during the time the commercial aired. ...

The Copyright Act provides that a copyright holder is entitled to recover his actual damages as well as "any profits of the infringer that are attributable to the infringement and are not taken into account in computing actual damages." 17 U.S.C. § 504(b) (2000). The infringer's profits are awarded to the copyright holder "to prevent the infringer from unfairly benefiting from a wrongful act." "In establishing the infringer's profits, the copyright owner is required to present proof only of the infringer's gross revenue, and the infringer is required to prove his or her deductible expenses *and the elements of profit attributable to factors other than the copyrighted work.*" § 504(b). "[W]here some of the defendant's profits result from the infringement and other profits are caused by different factors, ... the burden of proof is on the defendant ... [to] prove not only 'his

or her deductible expenses' but also 'the element of the profit attributable to factors other than the copyrighted work.' ” H.R.Rep. No. 94–1476, § 504, at 161 (quoting § 504(b)). “Any doubt as to the computation of costs or profits is to be resolved in favor of the plaintiff....

Audi does not dispute the jury's finding of copyright infringement, but argues only that Andreas failed to establish a causal connection between the infringement and its gross revenues from the sale of the TT coupe. The district court noted that generally “a rebuttable presumption that the defendant's revenues are entirely attributable to the infringement arises, and the burden then shifts to the defendant to demonstrate what portion of the profits are not traceable to the infringement.” The court applied a less strict standard, however, because this case involves indirect profits as opposed to direct profits: the infringers did not sell the copyrighted work, but used the copyrighted work to sell another product, the TT coupe. The court found that Andreas's proffered evidence of a connection between the infringement and Audi's revenues from the sale of the TT coupe during the time the commercial aired was too speculative to support the jury's award.

Although cases distinguish between direct and indirect profits, the statute does not.... We agree that in an indirect profits case the profits “attributable” to the infringement are more difficult to quantify. But that difficulty does not change the burden of proof established by the statute.... The burden of proving apportionment (i.e., the contribution to profits of elements other than the infringed property), is the defendant's.

The district court here concluded that the uncertainties in the evidence went to whether Audi profited from the infringing commercial at all—for which Andreas carried the burden of proof—rather than the extent that it profited from the infringement—for which Audi carried the burden of proof—because Andreas failed to prove that the infringed words resulted in the sale of any TT coupe. (Order at 9 (“While most people believe that advertising contributes somehow to the sales of motor vehicles, it is not sufficient for a plaintiff to rely on such intuitive notions as proof of causation.”).) However, in ruling on a motion for JAML, the evidence is to be read to support the verdict if at all reasonable. Andreas introduced more

than mere speculation that the Wake Up commercial contributed to sales of the TT coupe. The infringement was the centerpiece of a commercial that essentially showed nothing but the TT coupe. The evidence established that Audi enthusiastically presented the commercial to its dealers as an important and integral part of its launch of the TT coupe into the U.S. market; sales of the TT coupe during the period that the commercial aired were above Audi's projections; the three commercials received high ratings on the Allison–Fischer surveys that rated consumer recall of the commercials; and Audi paid M & S a substantial bonus based on the success of the commercials. Reading this evidence in the light most favorable to the verdict, the commercial did more than merely “contribute[ ] somehow,” *id.*, to sales of the TT coupe.

Audi argues that numerous unknown elements other than the commercial, let alone the infringing words contained in the commercial, contributed to sales of the TT coupe, and that therefore the award was based on speculation. We recognize that the offending commercial probably did not contribute to every purchase of a TT coupe during the relevant time period. Undoubtedly, some buyer somewhere bought a TT coupe without having seen the commercial despite Audi's extensive use of it. But we reject the notion that Andreas was required to put a TT buyer on the stand to testify that she bought the car because of the commercial in order to meet his burden of a causal connection. Once a nexus was shown as established above, Andreas was required under the statute only to establish Audi's gross revenue from the TT coupe. Audi then bore the burden of establishing that its profit was attributable to factors other than the infringing words: the other two commercials that did not contain the infringed words, other parts of the Wake Up commercial, customer loyalty, brand recognition, etc. “Any doubt as to the computation of costs or profits is to be resolved in favor of the plaintiff. If the infringing defendant does not meet its burden of proving costs, the gross figure stands as the defendant's profits.”

Having concluded that Andreas met his burden of establishing a nexus between the infringement and Audi's sale of TT coupes, we also believe that the jury's award was not overly speculative. The total profit upon which the jury based its award was limited to Audi's profit generated only by the sale

of the TT coupe, and only during the time that the “Wake Up” commercial aired. The evidence established that Audi sold 5,384 TT coupes in 1999, but that number was reduced to account for the 238 pre-ordered vehicles, leaving 5,146 TT coupe sales between May and the end of the year that were potentially related to the infringing commercial. Audi realized \$153,700,000 gross revenue on the sale of the limited number of TT coupes and an after-tax profit of \$5,700,000. The jury awarded Andreas \$570,000, or 10% of that profit generated by the sale of the TT coupe during the time period that the commercial aired as the profit attributable to Audi's infringing use of Andreas's copyrighted work. Conversely, the jury impliedly found that 90% of Audi's profit was attributable to factors other than the infringement. As we have held, Audi bore the burden of establishing the portion of its profit attributable to factors other than the infringement. This evidence provides a nonspeculative basis for the jury's award, and it is precisely the jury's function as the factfinder to do so. *See, e.g., Frank Music II*, 886 F.2d at 1550 (affirming district court's factual finding that 2% of casino's gaming and hotel profits were attributable to promotional value of music revue).....

We recognize that it is difficult to establish the portion of profits attributable to an infringement in cases where the infringed material is used in an advertisement for another product, but Congress put the burden of establishing “elements of profit attributable to factors other than the copyright work” on the defendant.

### **Conclusion**

We reverse the district court's grant of Audi's judgment as a matter of law and reinstate the jury's \$570,000 award of profits. The district court's rulings are affirmed in all other respects.

### **NOTES AND QUESTIONS**

1. In a lawsuit for copyright infringement, harm is often determined not by how much the plaintiff actually suffered, as in common law, but rather by how much the defendant infringer gained. While the plaintiff is allowed to recover for actual harm, most of the disputes revolve

around the plaintiff's ability to recover for "any profits of the infringer that are attributable to the infringement and are not taken into account in computing actual damages." 17 U.S.C. § 504(b). In the alternative to actual harm, sometimes the plaintiff is much better off due to the infringement. Consider the facts of the *Andreas* case. Was the artist any worse off due to Audi's use of "Angels of Mercy" in its commercials? Was Andreas himself actually harmed in any way? Do more people know of Andreas' artwork because of Audi's infringement?

2. While the Copyright Act does not differentiate between different types of profits, the 9<sup>th</sup> Circuit did. In *Mackie*, Jack Mackie, a popular artist in Seattle, sued the Seattle Symphony Orchestra for incorporating his artwork in a promotional campaign without seeking prior approval. The Court defined direct profits as "those that are generated by selling an infringing product" and indirect profits as "the revenue that has a more attenuated nexus to the infringement." *Mackie v. Reiser*, 296 F.3d 909, 914 (9<sup>th</sup> Cir. 2002). Despite the different classifications, the court held "a copyright holder must establish the existence of a causal link before indirect profits damages can be recovered." *Id.* The *Andreas* court recognized the difficulty in quantifying such indirect profits. Is there a justification in distinguishing between types of profits when the statute provides no such guidance? Considering both direct and indirect profits are subject to the same criteria in establishing infringement and a remedy, does distinguishing them present any benefit to infringement cases?
3. Section 504(b) of the Copyright Act provides that "In establishing the infringer's profits, the copyright owner is required to present proof only of the infringer's gross revenue, and the infringer is required to prove his or her deductible expenses and the elements of profit attributable to factors other than the copyrighted work." 17 U.S.C. 504(b) (2010). In other words, the plaintiff in an infringement case must prove (1) the profits of the alleged infringer, (2) the plaintiff's expenses in developing the copyright, and (3) the amount of profits the alleged infringer obtained specifically due to the alleged infringement. The court in *Andreas* recognizes the difficulty this may present for the plaintiff in an

indirect infringement case. Nevertheless, the initial burden remains with the plaintiff.

Once the court has found infringement the burden shifts to the defendant to prove that either the revenue obtained was not a profit, or that the profits are attributable to factors other than those in the copyrighted work. *See Konor Enterprises, Inc. v. Eagle Publications, Inc.*, 878 F.2d 138, 140 (4<sup>th</sup> Cir. 1989); *Bouchat v. Baltimore Ravens Football Club, Inc.* 346 F.3d 514, 520 (4<sup>th</sup> Cir. 2003). Since the copyright owner is entitled to recover only the profits that are attributable to the infringement, the defendant could conceivably prevent the copyright holder from recovering any reimbursement. *See Cream Records, Inc. v. Jos. Schlitz Brewing Co.* 754 F.2d 826 (9<sup>th</sup> Cir. 1985). How fair is this shift of burden? Once infringement has been discovered, should the infringer be able to present his or her own case to avoid reimbursing the entitled owner? Should there be an automatic remedy for plaintiffs who prove infringement, regardless of the magnitude of such?

4. The Copyright Act also provides for “statutory” damages that a copyright holder may obtain without regard to either its own losses or the infringers profits. These damages can run as high as \$150,000 per instance of willful infringement. 17 U.S.C. § 504. They can become debilitating when they are applied to secondary liability for passive infringement by firms such as *YouTube*, which often commit infringement when posters place infringing material on it. *See* MICHAEL A. CARRIER, *INNOVATION FOR THE 21<sup>ST</sup> CENTURY: HARNESSING THE POWER OF INTELLECTUAL PROPERTY AND ANTITRUST LAW* 148-161 (2009).

**TY, INC. V. PUB. INT’L LTD.**  
**292 F.3d 512 (7<sup>th</sup> Cir. 2002)**

POSNER, Circuit Judge.

Ty is the manufacturer of Beanie Babies. These well-known beanbag stuffed animals are copyrightable as “sculptural works,” 17 U.S.C. §§ 101,

102(a)(5); *Ty, Inc. v. GMA Accessories, Inc.*, 132 F.3d 1167, 1169 (7th Cir.1997) and are copyrighted by Ty, which brought this suit for copyright and trademark infringement against Publications International, Ltd. (PIL), publisher of a series of books, with titles such as *For the Love of Beanie Babies* and *Beanie Babies Collector's Guide*, that contain photographs of Beanie Babies. PIL concedes that photographs of Beanie Babies are derivative works, which, being copies of copyrighted works, can be produced only under license from Ty-and PIL has no license. PIL's defense to the charge of copyright infringement is the doctrine of fair use. On Ty's motion for summary judgment, the district court rejected the defense, granted the motion, and issued a permanent injunction against PIL's selling any of its Beanie Babies books. It also awarded Ty PIL's profits from the sale of those books, \$1.36 million, plus more than \$200,000 in prejudgment interest.....

The defense of fair use, originally judge-made, now codified, plays an essential role in copyright law. Without it, any copying of copyrighted material would be a copyright infringement. A book reviewer could not quote from the book he was reviewing without a license from the publisher. Quite apart from the impairment of freedom of expression that would result from giving a copyright holder control over public criticism of his work, to deem such quotation an infringement would greatly reduce the credibility of book reviews, to the detriment of copyright owners as a group, though not to the owners of copyright on the worst books. Book reviews would no longer serve the reading public as a useful guide to which books to buy. Book reviews that quote from ("copy") the books being reviewed increase the demand for copyrighted works; to deem such copying infringement would therefore be perverse, and so the fair-use doctrine permits such copying. *Desnick v. American Broadcasting Companies, Inc.*, 44 F.3d 1345, 1351 (7th Cir.1995)(dictum); William M. Landes, "Copyright, Borrowed Images, and Appropriation Art: An Economic Approach," 9 *Geo. Mason L.Rev.* 1, 10 (2000); Lawrence Lessig, "The Law of the Horse: What Cyberlaw Might Teach," 113 *Harv. L.Rev.* 501, 528 (1999). On the other hand, were a book reviewer to quote the entire book in his review, or so much of the book as to make the review a substitute for the book itself, he would be cutting into the publisher's market, and the defense of fair use

would fail.

Generalizing from this example in economic terminology that has become orthodox in fair-use case law, we may say that copying that is complementary to the copyrighted work (in the sense that nails are complements of hammers) is fair use, but copying that is a substitute for the copyrighted work (in the sense that nails are substitutes for pegs or screws), or for derivative works from the copyrighted work.... If the price of nails fell, the demand for hammers would rise but the demand for pegs would fall. The hammer manufacturer wants there to be an abundant supply of cheap nails, and likewise publishers want their books reviewed and wouldn't want reviews inhibited and degraded by a rule requiring the reviewer to obtain a copyright license from the publisher if he wanted to quote from the book. So, in the absence of a fair-use doctrine, most publishers would disclaim control over the contents of reviews. The doctrine makes such disclaimers unnecessary. It thus economizes on transaction costs.

The distinction between complementary and substitutional copying (sometimes-though as it seems to us, confusingly-said to be between "transformative" and "superseding" copies, see, e.g., *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 579 (1994)) is illustrated not only by the difference between quotations from a book in a book review and the book itself, Marion B. Stewart, "Calculating Economic Damages in Intellectual Property Disputes: The Role of Market Definition," 77 *J. Patent & Trademark Office Society* 321, 332 (1995), but also by the difference between parody (fair use) and burlesque (often not fair use). A parody, which is a form of criticism (good-natured or otherwise), is not intended as a substitute for the work parodied. But it must quote enough of that work to make the parody recognizable as such, and that amount of quotation is deemed fair use.... A burlesque, however, is often just a humorous substitute for the original and so cuts into the demand for it: one might choose to see *Abbott and Costello Meet Frankenstein* or *Young Frankenstein* rather than *Frankenstein*, or *Love at First Bite* rather than *Dracula*, or even *Clueless* rather than *Emma*. Burlesques of that character, catering to the humor-loving segment of the original's market, are not fair use.... The distinction is implicit in the proposition ... that the parodist

must not take more from the original than is necessary to conjure it up and thus make clear to the audience that his work is indeed a parody. If he takes much more, he may begin to attract the audience away from the work parodied, not by convincing them that the work is no good (for that is not a substitution effect) but by providing a substitute for it.

Book reviews and parodies are merely examples of types of work that quote or otherwise copy from copyrighted works yet constitute fair use because they are complements of (though sometimes negative complements, as in the case of a devastating book review) rather than substitutes for the copyrighted original. The commonest type is simply a quotation from a copyrighted work in a book or article on the same or a related subject. The complementary effect may be quite weak, but the quotation is unlikely to reduce the demand for the copyrighted work; nor could the copyright owner command a license fee commensurate with the costs of transacting with the copier. Such copying is therefore fair use.

Were control of derivative works not part of a copyright owner's bundle of rights, it would be clear that PIL's books fell on the complement side of the divide and so were sheltered by the fair-use defense. A photograph of a Beanie Baby is not a substitute for a Beanie Baby. No one who wants a Beanie Baby, whether a young child who wants to play with it or an adult (or older child) who wants to collect Beanie Babies, would be tempted to substitute a photograph. But remember that photographs of Beanie Babies are conceded to be derivative works, for which there may be a separate demand that Ty may one day seek to exploit, and so someone who without a license from Ty sold photographs of Beanie Babies would be an infringer of Ty's sculpture copyrights. The complication here is that the photographs are embedded in text, in much the same way that quotations from a book are embedded in a review of the book. Ty regards the text that surrounds the photographs in PIL's Beanie Baby books as incidental; implicitly it compares the case to one in which a book reviewer quotes the whole book in his review. Or to a case in which a purveyor of pornographic pictures pastes a copy of the Declaration of Independence on the back of each picture and argues that judged as a whole his product has redeeming social value.... PIL argues, to the contrary, that the photographs are

indispensable to the creation of a collectors' guide to Beanie Babies; and, as we'll see shortly, collectors' guides are not derivative works.

The proper characterization of PIL's Beanie Baby books is the kind of fact-laden issue appropriate for summary judgment only in extreme cases, which this case is not-in part because of differences among the books that the district court found infringed Ty's copyright. At one end of the spectrum is *For the Love of Beanie Babies*. This large-print book with hard shiny covers seems directed at a child audience. All the different Beanie Babies, more than 150 of them, are pictured. Each picture is accompanied by a brief commentary. Some of the commentary seems aimed exclusively at a child (or infantile adult) audience, such as the commentary on Snip the Siamese Cat: "That darn cat has nerve! Just like the real thing, Ty's Siamese has plenty of attitude. The champagne-colored cat with blue-ringed black eyes and chocolate-covered points is a beautiful specimen of the Far Eastern breed. And she knows it! Stretched out on all fours, this finicky feline is the only purebred in Ty's cathouse. This pretty kitty is definitely the cat's meow." The commentary seems distinctly secondary to the photograph. An even clearer case is a two-page spread in *For the Love of Beanie Babies* entitled "Kitty Corner," which we reproduce (without Ty's permission!-a good example of the fair-use doctrine in action) at the end of this opinion. The text is childish and pretty clearly secondary to the more than full-page photograph of feline Beanie Babies. Some of the commentary on photographs in *For the Love of Beanie Babies* does contain information relevant to collectors, such as "mint-condition Allys with older tags are very difficult to find. Retired." ("Retired" means no longer being manufactured.) But *For the Love of Beanie Babies* might well be thought essentially just a collection of photographs of Beanie Babies, and photographs of Beanie Babies are derivative works from the copyrighted Beanie Babies themselves.

At the opposite extreme is PIL's *Beanie Babies Collector's Guide*. This is a small paperback book with small print, clearly oriented toward adult purchasers-indeed, as the title indicates, toward collectors. Each page contains, besides a photograph of a Beanie Baby, the release date, the retired date, the estimated value of the Beanie Baby, and other information

relevant to a collector, such as that “Spooky is the only Beanie ever to have carried his designer's name,” or that “Prance should be a member of the Beanie line for some time, so don't panic and pay high secondary-market prices for her just because she's fairly new.”

Some of the text is quite critical, for example accusing Ty of frequent trademark infringements. Ty doesn't like criticism, and so the copyright licenses that it grants to those publishers whom it is willing to allow to publish Beanie Baby collectors' guides reserve to it the right to veto any text in the publishers' guides. It also forbids its licensees to reveal that they are licensees of Ty. Its standard licensing agreement requires the licensee to print on the title page and back cover of its publication the following misleading statement: “This publication is not sponsored or endorsed by, or otherwise affiliated with Ty Inc. All Copyrights and Trademarks of Ty Inc. are used by permission. All rights reserved.” Notice the analogy to a publisher's attempting to use licensing to prevent critical reviews of its books—an attempt that the doctrine of fair use blocks. See *Suntrust Bank v. Houghton Mifflin Co.*, *supra*, 268 F.3d at 1277 (concurring opinion).

But we do need to explain the oddity of there being collectors' guides for a line of children's toys; otherwise it might seem clear that the Beanie Babies Collector's Guide was a device for circumventing Ty's lawful monopoly of derivative works. As a marketing gimmick, Ty deliberately creates a shortage in each Beanie Baby by selling it at a very low price and not producing enough copies to clear the market at that price. As a result, a secondary market is created, just like the secondary market in works of art. The secondary market gives widespread publicity to Beanie Babies, and the shortage that creates the secondary market stampedes children into nagging their parents to buy them the latest Beanie Babies, lest they be humiliated by not possessing the Beanie Babies that their peers possess. *Ty, Inc. v. GMA Accessories, Inc.*, *supra*, 132 F.3d at 1171, 1173. The appeal is to the competitive conformity of children—but also to the mentality of collectors.

When Beanie Babies Collector's Guide was published in 1998, some Beanie Babies were selling in the secondary market for thousands of

dollars, while others were selling for little more than their original purchase price. The range was vast, creating a demand for collectors' guides. Ty acknowledges as it must that a collectors' guide to a series of copyrighted works is no more a derivative work than a book review is. We cannot find a case on the point but the Copyright Act is clear. It defines a derivative work as “a work based upon one or more preexisting works, such as a translation, musical arrangement, dramatization, fictionalization, motion picture version, sound recording, art reproduction, abridgment, condensation, or any other form in which a work may be recast, transformed, or adapted.” 17 U.S.C. § 101. A derivative work thus must either be in one of the forms named or be “recast, transformed, or adapted.” The textual portions of a collectors' guide to copyrighted works are not among the examples of derivative works listed in the statute, and guides don't recast, transform, or adapt the things to which they are guides. A guide to Parisian restaurants is not a recasting, transforming, or adapting of Parisian restaurants. Indeed, a collectors' guide is very much like a book review, which is a guide to a book and which no one supposes is a derivative work. Both the book review and the collectors' guide are critical and evaluative as well as purely informational; and ownership of a copyright does not confer a legal right to control public evaluation of the copyrighted work.

Ty's concession that a Beanie Babies collectors' guide is not a derivative work narrows the issue presented by PIL's appeal nicely (at least as to those books that are plausibly regarded as collectors' guides) to whether PIL copied more than it had to in order to produce a marketable collectors' guide. Ty points out that PIL's books copied (more precisely, made photographic copies of) the entire line of Beanie Babies, just like the book reviewer who copies the entire book. But the cases are clear that a complete copy is not per se an unfair use, see, e.g., *Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417, 447-50; *id.* at 480 (dissenting opinion)..., and the suggested analogy overlooks the fact that a collectors' guide, to compete in the marketplace, has to be comprehensive. Given that Ty can license (in fact has licensed) the publication of collectors' guides that contain photos of all the Beanie Babies, how could a competitor forbidden to publish photos of the complete line compete? And if it couldn't compete, the result would be to deliver into Ty's hands a monopoly of Beanie Baby

collectors' guides even though Ty acknowledges that such guides are not derivative works and do not become such by being licensed by it. *Castle Rock Entertainment, Inc. v. Carol Publishing Group, Inc.*, 150 F.3d 132, 145 n. 11 (2d Cir.1998) (“by developing or licensing a market for parody, news reporting, educational or other transformative uses of its own creative work, a copyright owner plainly cannot prevent others from entering those fair use markets”); see *Sony Computer Entertainment, Inc. v. Connectix Corp.*, 203 F.3d 596, 607-08 (9th Cir.2000); *Twin Peaks Productions, Inc. v. Publications Int'l, Ltd.*, 996 F.2d 1366, 1377 (2d Cir.1993) (“the author of ‘Twin Peaks’ cannot preserve for itself the entire field of publishable works that wish to cash in on the ‘Twin Peaks’ phenomenon”).

Granted, there is some question how, if Beanie Babies collectors' guides are indeed a complement to Beanie Babies (and they are), and Ty has a monopoly of Beanie Babies (and it does), Ty can get a second monopoly profit by taking over the guides market. The higher the price it charges for guides, the lower will be the demand for such guides and hence for collecting Beanie Babies and so the less effective will Ty's strategy of marketing Beanie Babies as collectibles be. This is the sort of question that has engendered skepticism among economists about the antitrust rule against tie-in agreements. But there is an answer here: Ty wants to suppress criticism of its product in these guides.

Ty goes so far as to argue that PIL not only cannot publish photos of all the Beanie Babies but cannot publish color photos of any of them, and perhaps cannot publish black and white photos of any of them or even sketches but must instead be content with the name of the Beanie Baby and a verbal description. Such a guide would sink like a stone in the marketplace no matter how clever and informative its text, since Ty licenses publishers to publish photos of all the Beanie Babies in the licensees' collectors' guides. It would be like trying to compete with a CD of Beethoven's Fifth Symphony by selling the score.

We have thus far discussed the application of the fair-use doctrine in terms of the purpose of the doctrine rather than its statutory definition, which though extensive is not illuminating. (More can be less, even in law.)

The statute provides that “the fair use of a copyrighted work ... for purposes such as criticism, comment, news reporting, teaching ... scholarship or research, is not an infringement of copyright.” 17 U.S.C. § 107. (Notice that the purposes listed are illustrative rather than comprehensive. *Campbell v. Acuff-Rose Music, Inc.*, *supra*, 510 U.S. at 577-78.) In deciding whether a particular use is fair, the “factors to be considered shall include”-and notice again that the listing is illustrative rather than exhaustive; Congress “intended that courts continue the common law tradition of fair use adjudication” and section 107 “permits and requires courts to avoid rigid application of the copyright statute, when, on occasion, it would stifle the very creativity which that law is designed to foster,” -- (1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes; (2) the nature of the copyrighted work; (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and (4) the effect of the use upon the potential market for or value of the copyrighted work.” Factors (1) and (2) are empty, except that (1) suggests a preference for noncommercial educational uses, picking up the reference earlier in the statute to “teaching ... scholarship or research.” Factor (3) is inapplicable to Beanie Babies, each one of which is copyrighted separately, so that there can be no partial copying as a matter of fact (no one, we imagine, wants a photograph of part of a Beanie Baby). Factor (4) at least glances at the distinction we noted earlier between substitute and complementary copying, since the latter does not impair the potential market or value of the copyrighted work except insofar as it criticizes the work, which is the opposite of taking a free ride on its value.

The important point is simply that, as the Supreme Court made clear not only in *Campbell* but also in *Sony Corp. v. Universal City Studios*, the four factors are a checklist of things to be considered rather than a formula for decision; and likewise the list of statutory purposes. ... Because the factors and purposes are not exhaustive, Ty can get nowhere in defending the judgment by arguing that some or even all of them lean against the defense of fair use. The question is whether it would be unreasonable to conclude, with reference to one or more of the enjoined publications, such as the *Beanie Babies Collector's Guide*, that the use of the photos is a fair use because it is the only way to prepare a collectors' guide.

Ty relies primarily on two cases. *Twin Peaks Productions, Inc. v. Publications International, Ltd.*, involved a book published by PIL concerning a television series. The book included a detailed recounting of the plot of the first eight episodes: “every intricate plot twist and element of character development appear in the Book in the same sequence as in the teleplays.” The court held that the book was basically an abridgment of the script and that abridgments (despite contrary, aged authority) are generally not fair use. The plot summaries were so extensive as to be substitutes for rather than complements of the copyrighted scripts.

The other case on which Ty principally relies, *Castle Rock Entertainment, Inc. v. Carol Publishing Group, Inc.*, involved another television series, *Seinfeld*, and another book, *The Seinfeld Aptitude Test*, a collection of trivia questions testing viewers' knowledge of obscure details of the series' plot and characters. There was evident complementarity: people who bought the book had to watch the show in order to pick up the answers to the questions in the book; no one would read the book in lieu of watching the show. When the book first appeared, the show's producers requested free copies and distributed them as promotional material, and the book's blurb told readers to “open this book to satisfy your between-episode cravings.” The court nevertheless held that the book wasn't insulated from copyright liability by the doctrine of fair use. The holding seems to rest in part, and very dubiously we must say, on the court's judgment that the book was frivolous. “Undoubtedly, innumerable books could ‘expose’ the ‘nothingness’ or otherwise comment upon, criticize, educate the public about, or research *Seinfeld* and contemporary television culture. The [*Seinfeld Aptitude Test*], however, is not such a book.” But the fair-use doctrine is not intended to set up the courts as judges of the quality of expressive works. That would be an unreasonable burden to place on judges, as well as raising a First Amendment question.

But there was more to the court's decision. The *Seinfeld Aptitude Test* may have been a subterfuge for copying the script of the television series—and the script was a derivative work. The court said that “each ‘fact’ tested by The SAT is in reality fictitious expression created by *Seinfeld*'s

authors. The SAT does not quiz such true facts as the identity of the actors in Seinfeld, the number of days it takes to shoot an episode, the biographies of the actors, the location of the Seinfeld set, etc. Rather, The SAT tests whether the reader knows that the character Jerry places a Pez dispenser on Elaine's leg during a piano recital, that Kramer enjoys going to the airport because he's hypnotized by the baggage carousels, and that Jerry, opining on how to identify a virgin, said 'It's not like spotting a toupee.' ” Castle Rock Entertainment, Inc. v. Carol Publishing Group, Inc., supra, 150 F.3d at 139. A similar judgment might be possible here with regard to *For the Love of Beanie Babies*, which we described as basically just a picture book; and the pictures are derivative works from Ty's copyrighted soft sculptures. This raises the question whether, while summary judgment is plainly not warranted with regard to all the books that the district court found infringed Ty's copyrights, it might be warranted with regard to some of them, specifically *For the Love of Beanie Babies*. However, three reasons counsel against this course. The first is that the record actually contains not one but three versions of *For the Love of Beanie Babies*, and our earlier description was of the one furthest removed from a collectors' guide; the others are closer. Second, Ty is not asking us to consider the appropriateness of partial summary judgment. Third, and related to the second point, the briefs do not analyze the various books separately, making us reluctant to rule separately on them. We do not preclude consideration on remand of the possibility of partial summary judgment.....

REVERSED AND REMANDED.

### NOTES AND QUESTIONS

1. In his *Ty, Inc.* opinion, Judge Posner states “The defense of fair use, originally judge-made, now codified, plays an essential role in copyright law. Without it, any copying of copyrighted material would be a copyright infringement.” The Copyright Act provides that “the fair use of a copyrighted work . . . for purposes such as criticism, comment, news reporting, teaching . . . scholarship or research, is not an infringement of copyright.” 17 U.S.C. § 107. The statute also outlines four factors when considering fair use: (1) the purpose and character of

the use, including whether such use is of a commercial nature or is for nonprofit educational purposes; (2) the nature of the copyrighted work; (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and (4) the effect of the use upon the potential market for or value of the copyrighted work.” *Id.*

2. *Derivative Works – Complements vs. Substitutes.* The Copyright Act defines a derivative work as “a work based upon one or more preexisting works, such as a translation, musical arrangement, dramatization, fictionalization, motion picture version, sound recording, art reproduction, abridgment, condensation, or any other form in which a work may be recast, transformed, or adapted.” 17 U.S.C. § 101. Derivative works can frequently be divided into two categories: complements and substitutes. Complement works seek to enhance a copyrighted work, and are often defended using the fair use doctrine. However, substitute works are often infringing, as they seek to replace a current copyrighted work and therefore cause direct harm to the plaintiff in an infringement suit. Needless to say, complementary works are fair use, as the “effect of the use upon the potential market” is unlikely to decrease demand for the copyrighted work. However, since a substitute work is meant to encroach on the market created by the copyrighted work and take away from potential profits, it is almost always infringement.

3. *Parody.* For the purposes of copyright law, parody is “the use of some elements of a prior author's composition to create a new one that, at least in part, comments on that author's works.” *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 580 (1994). As Judge Posner identifies in his *Ty, Inc.* opinion, a parody is not meant to substitute for the original work, but is a form a criticism that requires a certain amount of quotation in order to get its point across. Therefore, parody is often a “fair use” of copyrighted material.

*Campbell v. Acuff-Rose Music, Inc.*, is the best known parody copyright infringement case. In 1964, Roy Orbison released the hit song “Oh, Pretty Woman.” The song is probably best known, however,

as the theme song for the 1990 hit movie *Pretty Woman*, starring Julia Roberts and Richard Gere. In 1989, 2 Live Crew, a popular rap group, released a bawdy parody of Orbison's hit single. The parody opened to the now-famous bass line of "Oh, Pretty Woman" but then progressed to lyrics that were crass and offensive. Acuff-Rose Music, who owned the rights to Orbison's work, filed an infringement suit. The U.S. Supreme Court began its discussion of the case by stating "It is uncontested here that 2 Live Crew's song would be an infringement of Acuff-Rose's rights in 'Oh, Pretty Woman,' under the Copyright Act of 1976, but for a finding of fair use through parody." *Id.* at 574. The Court found compelling reasons for protecting parody from claims of copyright infringement, concluded that 2 Live Crew's song may very well be a parody and remanded the decision to the Circuit Court.

**GARRETSON V. CLARK**  
**111 U.S. 120 (1884)**

FIELD, J.

The patent was for an improvement in the construction of mop-heads, which may be described, with sufficient accuracy, as an improvement in the method of moving and securing in place the movable jam or clamp of a mop-head. With the exception of this mode of clamping, mop-heads like the plaintiff's had been in use time out of mind. Before the master, the plaintiff proved the cost of his mop-heads, and the price at which they were sold, and claimed the right to recover the difference as his damages. This rule was rejected....

When a patent is for an improvement, and not for an entirely new machine or contrivance, the patentee must show in what particulars his improvement has added to the usefulness of the machine or contrivance. He must separate its results distinctly from those of the other parts, so that the benefits derived from it may be distinctly seen and appreciated. The rule on this head is aptly stated by Mr. Justice BLATCHFORD in the court below: 'The patentee,' he says, 'must in every case 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 such evidence must be reliable and tangible, and not conjectural or speculative; or he must show, by equally reliable and satisfactory evidence, that 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.’ The plaintiff complied with neither part of this rule. He produced no evidence to apportion the profits or damages between the improvement constituting the patented feature and the other features of the mop. His evidence went only to show the cost of the whole mop, and the price at which it was sold. And, of course, it could not be pretended that the entire value of the mop-head was attributable to the feature patented. So the whole case ended, the rule was not followed, and the decree is therefore affirmed.

### NOTES AND QUESTIONS

1. Section 101 of the Patent Act states that “Whoever invents or discovers . . . any new and useful *improvement* thereof, may obtain a patent therefore, subject to the conditions and requirements of this title.” 35 U.S.C. 101. Not only does the patent act provide for patents on new inventions, but also improvements on old inventions. However, not all improvements are patentable. In order to pass the nonobvious requirement of patents, the patentee must prove that the invention is not obvious to a person having ordinary skill in the art (“PHOSITA”), and not whether it is an improvement over the prior art. 35 U.S.C. § 103(a). In his opinion above, Justice Field enforces the purpose of the patent act by stating that in order to obtain a patent, the patentee must show “in what particulars his improvement has added to the usefulness of the machine” and that the “benefits derived from [the improvement] may be distinctly seen and appreciated.” How should licensing come into play in these cases? How innovative does an improvement have to be to obtain a patent?
2. The problem of *After-Arising Technology*. When filing a patent application, inventors sometimes seek to patent the invention as well as all uses/improvements on the patent that the inventor could have

reasonable foreseen. As long as the inventor discloses the embodiments of his invention under § 112 of the Patent Act, he will generally be given the exclusive rights over later uses of his invention that use “after-arising” technology—technology not known at the time the patent is filed. See Mark A. Lemley, et al, *Life After Bilski*, 63 Stanford L. Rev. 1315 (2011). Is this fair to inventors in general? Should patents cover after-arising technology whether or not they were foreseeable, or would including such after-arising technology stifle innovation rather than protect it? See *Chiron Corp. v. Genentech, Inc.*, 363 F.3d 1247 (Fed. Cir. 2004).

3. *Proving Damages.* Section 284 of the Patent Act provides, “Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court.” 35 U.S.C. § 284 (2010).

In determining the amount of damages to which a patentee may be entitled, Judge Field reiterates the conclusions of the lower court, stating, “The patentee . . . must in every case 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 such evidence must be reliable and tangible.” However, in order to prove damages, the patentee has to show not only that the defendant captured sales from infringing on the patent, but that he actually captured them from the patentee herself.

Cf. *Mosler Safe Co. v. Ely-Norris Safe Co.* 273 U.S. 132 (1926), a common law case involving the tort of “palming off,” an antecedent of trademark infringement. Mosler was a safe company that held a patent on safes with interior explosive chambers that would jam a deadbolt into the frame when the safe detected tampering. A brass strip around the outside of the safe indicated the chamber and served as a trademark. Ely-Norris, another safe company, began to make safes that looked nearly identical to Mosler’s safes. The defendant’s safes bore

the metal strip but lacked the exploding chamber. Mosler sued for palming off, a form of trademark infringement, and sought damages for lost profits.

However, Ely-Norris was able to present evidence that Mosler was not the only safe manufacturing company that made safes with exploding chambers. Justice Holmes's opinion for the Supreme Court observed that because several competitors manufactured similar safes Mosler could not prove that sales made by Ely-Norris had actually been stolen from Mosler. As a result Mosler could not prove lost profits.

**IP INNOVATION, LLC v. RED HAT, Inc.**  
**705 F.Supp.2d 687 (E.D.Tex. 2010)**

RADER, Judge.

Defendants Red Hat, Inc. and Novell, Inc. seek to exclude the testimony and strike the expert report of Mr. Joseph Gemini. Mr. Gemini is Plaintiffs IP Innovation L.L.C. and Technology Licensing Corp.'s ("IPI") expert on reasonably royalty damages. This court GRANTS-IN-PART and DENIES-IN-PART the motion.

Under Rule 702 of the Federal Rules of Evidence, a court may permit opinion testimony from an expert only if such testimony "will assist the trier of fact" and "(1) the testimony is based upon sufficient facts or data, (2) the testimony is the product of reliable principles and methods, and (3) the witness has applied the principles and methods reliably to the facts of the case." The district courts act as gatekeepers tasked with the inquiry into whether expert testimony is "not only relevant, but reliable." *Daubert v. Merrell Dow Pharms., Inc.*, 509 U.S. 579, 589 (1993). This court must exclude testimony that does not meet the requirements of Rule 702.

In a suit for patent infringement, a successful plaintiff is entitled to "damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court." 35 U.S.C. § 284

(2006). The statute authorizes two categories of infringement compensation: lost profits and reasonably royalty damages. *Lucent Techs., Inc. v. Gateway, Inc.*, 580 F.3d 1301, 1324 (Fed.Cir.2009). Because IPI does not manufacture or sell products incorporating the patents-in-suit, it has not sought, and is not entitled to, lost profits.

A reasonable royalty contemplates a hypothetical negotiation between the patentee and the infringer at a time before the infringement began. *Hanson v. Alpine Valley Ski Area, Inc.*, 718 F.2d 1075, 1078 (Fed.Cir.1983). Critically, the hypothetical negotiation presumes that the patentee is a willing licensor and the alleged infringer is a willing licensee, with both parties assuming the patent was valid, enforceable, and infringed. *Georgia-Pacific Corp. v. U.S. Plywood Corp.*, 318 F.Supp. 1116, 1120 (S.D.N.Y.1970). The Federal Circuit “requires sound economic proof of the nature of the market and likely outcomes with infringement factored out of the economic picture” in all damages calculations. *Grain Processing Corp. v. Am. Maize-Prods. Co.*, 185 F.3d 1341, 1350 (Fed.Cir.1999). Although some approximation is permitted in calculating the reasonable royalty, the Federal Circuit requires “sound economic and factual predicates” for that analysis. *Riles v. Shell Exploration & Production Co.*, 298 F.3d 1302, 1311 (Fed.Cir.2002) (citation omitted). Where, as here, such sound economic and factual predicates are absent from a reasonable royalty analysis, Rule 702 requires this court to exclude that unreliable proffered evidence.

A reliable reasonable royalty calculation depends on trustworthy evidence of both the royalty base and the royalty rate. Mr. Gemini invoked the “entire market value rule” in identifying the royalty base in this case. Under the entire market value rule, damages are recoverable only “if the patented apparatus was of such paramount importance that it substantially created the value of the component parts.” *Rite-Hite Corp. v. Kelley Co., Inc.*, 56 F.3d 1538, 1549 (Fed.Cir.1995) (citation omitted). Therefore, “the patentee must prove that the patent-related feature is the basis for customer demand.” *Lucent*, 580 F.3d at 1336.

In this case, IPI has accused Red Hat's and Novell's Linux-based operating systems of infringing the patents-in-suit, including the Enterprise

Linux Desktop and Server products. IPI alleges that the operating systems' multiple virtual workspaces and workspace switching features infringe the patents-in-suit. In invoking the "entire market value rule," Mr. Gemini included 100% of Red Hat's and Novell's total revenues from sales of subscriptions to the accused operating systems in his proposed royalty base. Mr. Gemini's methodology however does not show a sound economic connection between the claimed invention and this broad proffered royalty base.

The claimed invention is but one relatively small component of the accused operating systems. The evidence shows that the workspace switching feature represents only one of over a thousand components included in the accused products. Mr. Gemini relies on an online user forum for a third-party product to show that some users tout a desktop switching feature as essential. However, selected users' statements in isolation and without a relationship to the actual claimed technology do not show an accurate economic measurement of total market demand for the switching feature, let alone its contribution to the demand for the entire product asserted as the royalty base. The workspace switching feature's small role in the overall product is further confirmed when one considers the relative importance of certain other features such as security, interoperability, and virtualization. Moreover this proffered evidence has no economic foundation.

Contrary to the proffer of Mr. Gemini, the record-even at this pretrial stage after discovery-suggests that users do not buy the accused operating systems for their workspace switching feature. Most of Red Hat's and Novell's accused sales come from their Server products, the majority of which are not connected to a display and thus do not take advantage of the workspace switching feature. Mr. Gemini made no effort to factor out of his proffered royalty base these products which do not even feature the claimed invention. Once again, this blatant oversight shows that Mr. Gemini did not use the type of reliable economic principles and methods required by Rule 702 for an economic damages expert. Also, the record shows that some accused operating systems are sold to the public with a default setting that does not enable the workspace switching feature. Mr. Gemini made no

effort to factor out of his proffered royalty base those operating systems in which the user never affirmatively enables the claimed switching feature. In fact, he made no effort to even discern the percentage of users who would never enable or use the claimed feature. This aspect of his questionable methodology also shows inattention to the economic and factual data necessary for a reliable assessment of a compensatory royalty. Overall, Mr. Gemini never accounts for the record evidence that most users of the accused operating systems do not seem to use the workspace switching feature at all. Accordingly, the record cannot support the unfounded conclusion that the often-unused feature drives demand for a royalty base of 100% of the operating systems as a whole. In sum, this stunning methodological oversight makes it very difficult for this court to give any credibility to Mr. Gemini's assertion that the claimed feature is the "basis for customer demand."

IPI tries to shift the burden to Red Hat and Novell, complaining that they did not provide sufficient information for Mr. Gemini to determine the value of the desktop switching feature relative to other features of the accused products. IPI argues that the defendants' desktop switching feature has no separate valuation, no aftermarket, and thus no way to value the accused feature separately. This court, however, must insist under the law that IPI, not Red Hat or Novell, has the burden of proving damages by a preponderance of evidence. IPI cannot blame the defendants for Mr. Gemini's assertion of 100% of the revenue as royalty base. IPI must show some plausible economic connection between the invented feature and the accused operating systems before using the market value of the entire product as the royalty base.

Another reason for excluding Mr. Gemini's expert testimony is that he arbitrarily picked a royalty rate that is much higher than the existing royalty rates for licenses to the patents-in-suit. As a "starting point" for determining the royalty rate, Mr. Gemini used a 2004 publication titled "Licensing Economics Review" ("LER") by AUE Consultants and a 2004 study by Navigant Consulting. LER indicated that the average royalty rate for the Software industry was 11.6% of revenues with a median of 7.5 % of revenues. Navigant Consulting's study indicated that for Computer and

Electronic Products Manufacturing industry, royalty rates were at a high of 40.0%, a low of 1.0%, a mean of 10.2%, and median of 6.0% of revenues. However, “software industry” and “computer and electronic products manufacturing industry” encompass much more than the desktop switching feature at issue in this case. Mr. Gemini offers no evidence that the alleged industry agreements are in any way comparable to the patents-in-suit. See *ResQNet.com, Inc. v. Lansa, Inc.*, 594 F.3d 860, 869-71 (Fed.Cir.2010) (discrediting license agreements because “none of these licenses even mentioned the patents in suit or showed any other discernible link to the claimed technology”).

Instead of relying on these studies, Mr. Gemini should have at least inaugurated his analysis with reference to the existing licenses to the patents-in-suit. See *Georgia-Pacific*, 318 F.Supp. at 1120 (considering past and present royalties received by the patentee “for the licensing of the patent-in-suit, proving or tending to prove an established royalty”). “An established royalty is usually the best measure of a ‘reasonable’ royalty for a given use of an invention because it removes the need to guess at the terms to which parties would hypothetically agree.” *Monsanto Co. v. McFarling*, 488 F.3d 973, 978-79 (Fed.Cir.2007) (citation omitted). The previous owner of the patents-in-suit, Xerox Corporation, entered into several license agreements that involved one or more of the patents-in-suit. At least two of these agreements were entered into outside of the context of litigation and thus appropriate as touchstones for determining the appropriate royalty rate in this case. Mr. Gemini disregarded these licenses because Xerox entered into these agreements in the mid-1990's, a decade before the alleged hypothetical negotiation date. However, these licenses are far more relevant than the general market studies on which Mr. Gemini primarily relied in his expert report. A credible economic approach might have tried to account for the passage of time since the 1990's agreements on the patents in this case, rather than reject them out of hand.

Accordingly, Mr. Gemini's current expert report improperly inflates both the royalty base and the royalty rate by relying on irrelevant or unreliable evidence and by failing to account for the economic realities of this claimed component as part of a larger system. This court hereby

precludes Mr. Gemini from testifying at the trial of this case or otherwise presenting his opinions on the issue of damages based on his current expert report. Given the lack of evidence in the record relating to damages, this court will entertain appropriate motions to repair and prepare a record suitable for trial on the issue of damages. This court will entertain appropriate motions and responses on the topic of damages. The parties are reminded that expert testimony on the topic of damages will not be allowed absent a firm basis in accepted economic principles with an eye to the facts of this record.

It is SO ORDERED.

**RICOH CO., LTD. V. QUANTA COMPUTER, INC.**  
**2010 WL 1607908 (W.D.Wis.,2010)**

CRABB, District Judge.

A jury found that defendants Quanta Computer, Inc. and Quanta Storage, Inc. indirectly infringed two patents related to optical disc drives owned by plaintiff Ricoh Company, Ltd., U.S. Patent No. 5,063,552 and U.S. Patent No. 6,661,755.... Now before the court is plaintiff's motion for a permanent injunction... Because I conclude that plaintiff cannot satisfy the four-factor test for obtaining a permanent injunction set out in *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006), I am denying plaintiff's request for a permanent injunction. In accordance with *Paise LLC v. Toyota Motor Corp.*, 504 F.3d 1293, 1315 (Fed.Cir.2007), the parties will be directed to "negotiate a license amongst themselves regarding future use" of the 755 patent.

In *eBay*, the Supreme Court rejected the view that, in patent cases, "injunctions should be denied only in the unusual case, under exceptional circumstances and in rare instances ... to protect the public interest." Rather, the same standard for obtaining a permanent injunction applies in patent cases as in any other case. The plaintiff must show that (1) it has suffered an irreparable injury; (2) the remedies available at law are inadequate to compensate for that injury; (3) considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) the public interest would not be disserved by a permanent injunction.

In this case, there are few reasons to grant a permanent injunction and many that counsel against doing so. To begin with, it is undisputed that plaintiff does not practice the invention in the 755 patent. In fact, plaintiff no longer manufactures or sells any disc drives. The best case for obtaining a permanent injunction often occurs when the plaintiff and defendant are competing in the same market. In that context, the harm in allowing the defendant to continue infringing is the greatest. Because plaintiff is not competing with defendants for the same customers, it is more difficult for plaintiff to argue that it will be irreparably harmed without an injunction.

Plaintiff is correct that it is possible for a non-practicing entity to satisfy the four-factor test. “For example, some patent holders, such as university researchers or self-made inventors, might reasonably prefer to license their patents, rather than undertake efforts to secure the financing necessary to bring their works to market themselves.” *eBay*, 547 U.S. at 393. Of course, plaintiff is not a researcher or a self-made inventor. Rather, plaintiff may be more akin to an entity that four Justices concluded in their concurrence generally is not entitled to a permanent injunction:

An industry has developed in which firms use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees. For these firms, an injunction, and the potentially serious sanctions arising from its violation, can be employed as a bargaining tool to charge exorbitant fees to companies that seek to buy licenses to practice the patent. When the patented invention is but a small component of the product the companies seek to produce and the threat of an injunction is employed simply for undue leverage in negotiations, legal damages may well be sufficient to compensate for the infringement and an injunction may not serve the public interest.

*eBay*, 547 U.S. at 396-97 (Kennedy, J., concurring with Stevens, J., Souter, J., and Breyer, J.)

As defendants point out, plaintiff has not been miserly in issuing licenses for the 755 patent for any company willing to pay for one. Plaintiff's own witnesses testified at trial that plaintiff has issued licenses to Sony, Hitachi, Toshiba, Matsushita, Panasonic, Lite-On, BenQ, Pioneer, Phillips and IBM. Plaintiff even issued a license to ASUS after that company was dismissed from this case for lack of personal jurisdiction. In fact, plaintiff does not identify any sellers of optical disc drives other than

defendants that have not yet taken a license. Thus, plaintiff cannot argue persuasively that it is trying to narrowly limit the practice of its invention rather than simply maximize a potential licensing fee. Also, as in the hypothetical situation discussed by Justice Kennedy, plaintiff's patent "is but a small component of the product [defendants] seek to produce," which is another factor suggesting that "legal damages may well be sufficient to compensate for the infringement and an injunction may not serve the public interest." *eBay*.

Plaintiff says that defendants' "competitors will be encouraged to infringe the '755 patent" and that plaintiff's "entire licensing program worldwide will suffer because other manufacturers will be tempted to roll the dice and infringe [plaintiff's] patents" if plaintiff does not obtain an injunction. The first part of this argument assumes that there are any competitors left who do not have a license already. Further, with respect to both arguments, plaintiff fails to point to any evidence showing that an injunction would have a greater deterrent effect than a compulsory license. Plaintiff says that, absent a threat of an injunction, infringers would have nothing to lose by forcing plaintiff to sue them, but this overlooks the cost of litigation as well as the possibility of a finding of willful infringement and an award of attorney fees for asserting a frivolous position. Even if I assumed that injunctions generally have a greater deterrent effect, plaintiff fails to explain why that factor weighs more heavily in this case than in any other case in which a court must determine whether a permanent injunction is appropriate. The logical conclusion of plaintiff's argument is to return to the view rejected by the Court in *eBay* that plaintiffs in patent cases are entitled to a permanent injunction as a matter of course because injunctions always serve as a better deterrent than an ongoing royalty.

The balance of harms does not weigh heavily in either direction, but overall I believe that factor favors defendants. Both sides have taken varying positions regarding the feasibility of designing around the 755 patent, depending on which position serves a particular argument. However, even if the invention in the 755 patent is not the only way to perform buffer underrun protection, implementing a new design is complicated by the fact that defendants do not manufacture the infringing component in the drives. Thus, defendants would have to convince the manufacturer to come up with a noninfringing alternative or alter the component themselves after purchasing it from the manufacturer. Plaintiff has not shown that either of these possibilities is realistic.

Alternatively, plaintiff argues that defendants could limit their sales of drives to companies that have licenses or “sell drives destined for countries other than the United States.” However, neither of these options makes much sense. Restricting defendants' sales to particular companies benefits neither plaintiff nor defendants, but simply funnels defendants' business toward third parties. With respect to the other option, plaintiff fails to explain how defendants would be able to predict or control which country a disc drive was “destined” for when they sell drives to companies such as Dell or Gateway.

With respect to the question whether plaintiff has adequate legal remedies, plaintiff argues that calculating an ongoing reasonable royalty rate is not feasible in this case because defendant “Quanta Storage does not track its total sales in the United States.” That argument is undermined by the trial in this case, in which plaintiff seemed to have little difficulty proposing a reasonable royalty rate to the jury for past infringement.

Certainly, the difficulty of calculating a reasonable royalty rate is no greater than crafting an appropriate injunction and then enforcing it. The jury did not find that defendants made or sold any infringing products in the United States, only that defendants contributed to infringement by others or actively induced it. Thus, crafting an appropriate injunction is not as simple as listing particular products that defendants may not sell in the United States; rather, it would require prohibiting defendants from engaging in particular acts that might constitute indirect infringement. Plaintiff's proposed injunction states generally that defendants are prohibited from “selling in the United States-directly or indirectly-offering for sale or importing into the United States, or otherwise inducing or encouraging use of [infringing] drives in the United States.” That language is so vague that it likely would violate the specificity requirements of Fed.R.Civ.P. 65. *Nuxoll ex rel. Nuxoll v. Indian Prairie School Dist.* # 204, 523 F.3d 668, 675 (7th Cir.2008) (“[A]n injunction ... must contain a detailed and specific statement of its terms.”); *Patriot Homes, Inc. v. Forest River Housing, Inc.*, 512 F.3d 412, 415 (7th Cir.2008) (“The preliminary injunction entered by the district court uses a collection of verbs to prohibit [the defendant] from engaging in certain conduct, but ultimately it fails to detail what the conduct is.”). Monitoring and enforcing the injunction would be even more difficult because it would require plaintiff to determine when defendants were “encouraging” or “inducing” infringement and also when a third party was engaging in acts of direct infringement. Plaintiff does not identify how

this could be accomplished without repeated trips to this court for evidentiary hearings.

Finally, plaintiff has failed to show that the public interest would be better served through an injunction rather than a compulsory license. Plaintiff argues that the “Constitutional goal of promoting science” under Article I, § 8 favors an injunction. Again, plaintiff fails to identify any facts in this case that would help serve that purpose more than with respect to any other claim for patent infringement. In fact, plaintiff has not shown that an injunction would serve any purpose other than to increase its leverage in negotiations for a higher licensing fee. Because that is not an adequate ground for an injunction, plaintiff’s motion for a permanent injunction will be denied.

In many cases, if an injunction is not appropriate, the plaintiff may be entitled to an ongoing royalty.... [T]he general rule is “to allow the parties to negotiate a license amongst themselves regarding future use of a patented invention before imposing an ongoing royalty. Should the parties fail to come to an agreement, the district court [may] step in to assess a reasonable royalty in light of the ongoing infringement.” Accordingly, I will direct the parties to engage in negotiations regarding an appropriate royalty.

### NOTES AND QUESTIONS

1. The Patent Act provides that an infringed patentee is entitled damages adequate to compensate for infringement. In such a case, there are three types of remedies a patentee may seek: (1) a reasonable royalty, (2) lost profits, and (3) an injunction. In determining the type and amount of damages, a court must ask “had the Infringer not infringed, what would the Patent Holder have made?” *Lucent Techs., Inc. v. Gateway, Inc.*, 580 F.3d 1301, 1324 (Fed.Cir.2009). A reasonable royalty and lost profits are paid out in a monetary sum to the patentee, while an injunction simply forces the infringer to cease from all operations constituting infringement.

2. “A reasonable royalty is, of course, merely the floor below which damages shall not fall.” *Lucent Techs., Inc. v. Gateway, Inc.*, 580 F.3d 1301, 1324 (Fed.Cir.2009). There are two approaches for calculating a reasonable royalty. The first is an analytical method, which involves “subtracting the infringer’s usual or acceptable net profit from its anticipated

net profit realized from sales of infringing devices.” *TWM Mfg. Co. v. Dura Corp.*, 789 F.2d 895, 899 (Fed.Cir.1986). The second, which is more common, is the hypothetical negotiation or the “willing licensor-willing licensee” approach. This method attempts to determine the royalty upon which the parties would have agreed had they successfully negotiated an agreement before infringement began. See *Lucent Techs*, 580 F.3d at 1324. See also *Georgia-Pacific Corp. v. U.S. Plywood Corp.*, 318 F.Supp. 1116 (S.D.N.Y. 1970) (listing fifteen criteria fact-finders consider in determining what amounts to a reasonable royalty).

“Lost profits may be in the form of diverted sales, eroded prices, or increased expenses. The patent owner must establish a causation between his lost profits and the infringement. A factual basis for the causation is that “but for” the infringement, the patent owner would have made the sales that the infringer made, charged higher prices, or incurred lower expenses.” *Lam, Inc. v. Johns-Manville Corp.* 718 F.2d 1056 (1983). In claiming for lost profits, the patentee is not required to prove an absolute profit, but only a reasonable probability of profits. *Id.* However, the patentee must make effort to prove that he specifically lost profits, otherwise all the patentee may be able to recover is a reasonable royalty. *Georgia-Pacific*, 318 F.Supp. at 1129.

See also *LaserDynamics, Inc. v. Quanta Computer, Inc.*, 694 F.3d 51 (Fed. Cir. 2012), in which the court held that an expert could not base the patentee's damages on a percentage of the value of an entire laptop computer when the patent in question was on a device that enabled the optical drive to determine what type of disc had been inserted. How much does it matter what the base is, as long as the royalty percentage is adjusted accordingly? The court remanded for a determining of a hypothetically negotiated reasonable royalty.

3. When a patent owner cannot show lost profits, which is the norm in markets that contain numerous patents and competitively structure markets, patent damages are often based on a hypothetical royalty negotiation. What royalty would the parties have negotiated had they done so *ex ante*? An important principle in such negotiations is opportunity cost,

or the idea that a buyer will not pay more for a license than for an equally good alternative. For example, if equally good technology was available from an alternative seller who charges a \$1.00 royalty to all takers, then the disputed patent is probably not worth more than \$1.00 either. Or if a patent enables a firm to use \$2.00 worth of a particular input rather than \$2.30, and makes no other contribution, then the license to the patent cannot be worth more than the 30 cents cost savings. See *Grain Processing Corp. v. American Maize-Products*, 185 F.3d 1341 (Fed. Cir 1999). Alternatively, if the defendant could have "invented around" the patent at a fairly modest cost, then the value that the patent adds to the infringer's product cannot be more than that cost. Of course, in such cases the alternative may not be "equally good," and then adjustments will have to be made. See *Apple, Inc. v. Motorola, Inc.*, 2012 WL 1959560 (N.D.Ill. May 22, 2012) (rejecting such evidence when it came from interested parties, one of whom was not competent to testify, but then also rejecting plaintiff's expert testimony for failure to consider reasonably available alternatives). See also *Spectralytics, Inc. v. Cordis Corp.*, 649 F.3d 1336 (Fed. Cir. 2011) (rejecting cost of an available alternative as a royalty cap when the evidence showed that the alternative had been tried and was found to be inferior).

4. In *eBay, Inc. v. MercExchange, LLC* 547 U.S. 388 (2006), MercExchange held a patent designed to facilitate the sale of goods among private individuals. MercExchange sought license its patent to eBay. However, the parties failed to reach an agreement. Subsequently, MercExchange filed an patent infringement case against eBay. At the District Court, a jury found eBay had in fact infringed MercExchange's patent and awarded damages. As a remedy, MercExchange sought a permanent injunction.

In determining whether MercExchange was entitled to injunctive relief, the Supreme Court found that, as in courts of equity, a plaintiff seeking permanent injunctive must satisfy a four-factor test and demonstrate: (1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted;

and (4) that the public interest would not be disserved by a permanent injunction.

Writing for the majority, Justice Thomas held, “This approach is consistent with our treatment of injunctions under the Copyright Act. Like a patent owner, a copyright holder possesses the right to exclude others from using his property. Like the Patent Act, the Copyright Act provides that courts may grant injunctive relief on such terms as it may deem reasonable to prevent or restrain infringement of a copyright. And as in our decision today, this Court has consistently rejected invitations to replace traditional equitable considerations with a rule that an injunction automatically follows a determination that a copyright has been infringed.”

Since *eBay*, the overwhelming trend among the lower courts has been to deny injunctions to non-practicing entities, sometimes referred to as patent “trolls.” The *Ricoh* decision is a good example.

5. Should a patentee's remedy depend on its market share? In general, dominant firms can more easily prove damages because they are able to show that sales were taken from them. This is often not the case for a firm in a highly competitive market, where sales could have come from anywhere. Likewise, the "reasonable royalty" that a monopolist might negotiate could be considerably higher than the one negotiated by one of many patentees in the market for that particular innovation. Should a firm with a very high market share should have a greater entitlement to an injunction? If patent remedy rules tend to favor dominant firms, doesn't this put patent law on a collision course with antitrust, which favors the preservation of competition? If the purpose of antitrust remedies is to promote competition, shouldn't the purpose of patent remedies be to spur innovation?