Federal Trade Commission Workshop: Recent and Proposed Changes in Remedies Law

Q. Todd Dickinson
Executive Director, American Intellectual Property Law Association

December 5, 2008

Overview

- Since the October 2003 FTC IP Report many of the concerns regarding inadequacies in the patent law have been addressed through decisions issued by the Supreme Court and Court of the Appeals for the Federal Circuit
- Take time now to reflect on what has happened during the previous 5 years and take stock of what problems remain that threaten the vitality of the patent system; what future actions are needed and the proper forum for such actions to occur

Patent Remedies

- Injunctions
- Declaratory Judgment Actions
- Willful Infringement: enhanced damages
- Damages

Injunctions

- In 2003 virtual award of permanent injunctions in almost every patent litigation where patent found to be not invalid and infringed
- Concerns were raised by practicing entities that threat of injunctions in litigation with non-practicing entity patent holders created distortion

Injunctions

- Supreme Court decision in *eBay v. MercExchange* requires application of the four factors when determining whether permanent injunction should be granted
  - (1) the likelihood of the patentee's success on the merits; (2) irreparable harm if the injunction is not granted; (3) the balance of hardships between the parties; and (4) the public interest

Injunctions

- After *eBay,* the federal courts have refined the contours of when permanent injunctions should be granted when the patent holder is:
  - A practicing entity
  - A non-practicing entity other than a university or research institute
  - A university or research institute

Permanent Injunctions

- No longer automatically granted
- Require balancing of the equities
- Will affect probabilities of settlement

Declaratory Judgment Actions

- In 2003 it was difficult for some parties to qualify for DJ action standing in patent case
- Some ANDA filers and licensees without the threat of suit by the patent owner could not pursue a DJ action to establish that they were non-infringing or that the patent in question was invalid or unenforceable

Declaratory Judgment Actions

- The Supreme Court in *MedImmune v. Genentech* clarified the law of DJ jurisdiction based on:

whether the facts alleged, under all the circumstances, show that there is a substantial controversy, between parties having adverse legal interests, of sufficient immediacy and reality to warrant the issuance of a declaratory judgment

Declaratory Judgment Actions

- The Federal Circuit has begun to delineate the limits of federal court jurisdiction in patent declaratory judgment actions under the new standard.
- In the wake of the Supreme Court of the United States' decision in *MedImmune Inc. v. Genentech Inc.,* the Federal Circuit has decided a series of cases regarding jurisdiction over declaratory judgment (DJ) actions in patent cases.
- Such declaratory judgment actions, when allowed, permit putative infringers who have not been sued yet to seek relief from the courts in the form of a declaration that the patent is not infringed or is invalid—thereby removing business uncertainty.

Declaratory Judgment Actions

- The Federal Circuit has enumerated several types of behavior that could create jurisdiction, including the following:
- Creating a reasonable apprehension of suit
- Demanding royalty payments
- Creating a barrier to regulatory approval of a product

Declaratory Judgment Actions

- Immediately after the Supreme Court's *MedImmune* decision, there appeared to be very few ways to avoid declaratory judgment jurisdiction
- However, as the Federal Circuit has begun to address varying fact patterns, it has begun to delineate the limits of federal court jurisdiction in patent declaratory judgment actions under the new standard
- While the standard is still more permissive than it was before *MedImmune*, the federal courts are not open to any and all "disputes."
- A careful factual analysis of each particular case is required
- As the law evolves further we may expect some of the current lines to be challenged and further refinements or reconsiderations of these cases to occur

Willful Infringement

- In 2003 concerns were raised regarding standard for proving willful infringement
- Many sectors of the patent user community advocated for revising the standard both as to the notice requirement given to third parties and use of good faith defenses available to avoid a finding of willful infringement

Willful Infringement

- The Federal Circuit in its en banc decision in *In re Seagate* has served to raise the bar in the standard for proving willful infringement
- In *Seagate*, the *Underwater Devices* decision was overruled, eliminating the duty of due care imposed on accused infringers
- Furthermore, an "objective recklessness" standard was established, making it more difficult for patent owners to prove willful infringement

Willful Infringement

- The Federal Circuit is further defining the contours of the objective recklessness standard
- "Under this [objectively high likelihood that its actions constituted infringement of a valid patent] standard, both legitimate defenses to infringement claims and credible invalidity arguments demonstrate the lack of an objectively high likelihood that a party took actions constituting infringement of a valid patent." The court did not elaborate on the meanings of "legitimate" and "credible". Black & Decker, Inc. v. Robert Bosch Tool Corp. (Fed. Cir. 2008)

Solutions

I agree with Judge McKelvie's recommendations that:

1. Federal Circuit decisions that impose predictability by confirming that willfulness claims should be tested by an early summary judgment motion.
2. Change in the law to provide willfulness can not be plead until after the defendant's liability has been established.
3. Make willfulness as an issue for the judge rather than the jury.

Consequences of Recent Decisions

- Harder to obtain permanent injunctions
- Harder to obtain enhanced damages
- Raising of section 101 and 103 bars in *In re Bilski* and *KSR v. Teleflex* is making harder to obtain and enforce patents
- How will this trend affect the "damages" no less than a reasonable royalty calculation debate?

Taking Stock: Questions We Should Consider

- What are the remaining problems in need of solving?
- What is the best approach to solving these problems?
- In view of legislative stalemates on patent reform should the focus be on improving the USPTO and leaving it to the courts to further clarify the law?

Damages

- Damages in patent cases are governed by section 284 of the statute, which states in relevant part:

  "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."

Damages

- Patent speculator activity and large jury damage awards raised concerns about how the *Georgia-Pacific* factors were being applied by courts and juries in determining the reasonable royalty calculation
- Application of the entire market value of infringing products and infrequent apportionment of damages were of particular concerns to patent defendants

Damages

- This led to a push for:
  - Better jury instructions
  - Reliance on damages expert witness testimony
  - Better guidance from the Federal Circuit
  - Legislative action that has suffered from lack of consensus in achieving a tailored solution

Observations: Excerpted from “Reform of Patent Damages” by William C. Rooklidge
http://www.patentsmater.com/press/pdfs/Patent_Damages_Reform_Rooklidge.pdf

- Even though some reasonable royalty cases have refused apportionment and applied the entire market value rule proves nothing; other reasonable royalty cases have applied apportionment and denied application of the entire market value rule.
- The area of law is complex, the scope of the royalty base is often difficult to know, “the relative contribution of the patented feature often is a difficult matter to determine,” and the detailed rules that may be teased out from the cases are the culmination of the courts’ long and careful efforts to adhere to the statutory requirement to provide damages adequate to compensate for the infringement of an inventor’s patent.

Observations

- Apportionment recognizes the reality that consumer demand for an infringing product or process may in part spring from contributions from the infringer, and to reward the inventor for those contributions is inappropriate.
- On the other hand, the entire market value rule recognizes the reality that even complex assemblies may owe their marketability to a patented feature—a feature that drives consumer demand for the overall assembly.
- In those cases, it is entirely appropriate to reward the inventor according to the worth of her invention.
- To do otherwise would only encourage those who trespass and discourage inventors from making their intellectual efforts available to the public.
- Further judicial development could solve any problems that truly exist in the patent damages area.

Is there Need for En Banc Decisions by Federal Circuit?

- Chief Judge Michel has encouraged the patent bar to tee up good cases worthy of en banc consideration by the Federal Circuit
- En banc cases with active *amici* brief filings by all segments of the patent community can serve to sharpen the law
- Careful selection of cases for en banc review may serve as the best approach to clarify the law of damages as well as enforceability

Legislative Actions

- Tangential to the aforestated remedies, legislative action is warranted to permit post-grant correction of patents by third parties as a form of remedy akin to DJ actions
- May lead to patent claim narrowing and intervening rights
- Enhanced *inter partes* reexamination, rather than a new post-grant opposition system, may serve as the best vehicle to accomplish this objective

Conclusions

- Many concerns raised by the 2003 FTC IP Report have been overtaken by events
- Now is the time to take stock of what has transpired and the effectiveness of actions taken
- The need for legislative reform appears to be less urgent than in the past and it has not been an effective vehicle to achieve a consensus approach to change
- Recent experience in decisions of the Supreme Court and Federal Circuit show that courts as agents of change can be effective
- Take legislative action in those areas where change is needed that cannot be accomplished through the courts

Thank You

- For inviting me to participate on this panel
- I would be pleased to provide more expansive testimony on this subject, if requested
- If you have questions or comments you can reach me at:
  - tdickinson@aipla.org
  - 703-415-0780