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Remedies for Patent Infringement

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Summary

For more than a decade, some Members of Congress have considered bills that have proposed reforms to the law of patent remedies. Under current law, courts may award damages to compensate patent proprietors for an act of infringement. Damages consist of the patent owner's lost profits due to the infringement, if they can be proven. Otherwise the adjudicated infringer must pay a reasonable royalty. Courts may also award enhanced damages of up to three times the actual damages in exceptional cases. In addition, courts may issue an injunction that prevents the adjudicated infringer from employing the patented invention until the date the patent expires. Finally, although usually each litigant pays its own attorney fees in patent infringement cases, win or lose, the courts are authorized to award attorney fees to the prevailing party in exceptional cases.

Some observers believe that the courts are adequately assessing remedies against adjudicated patent infringers. Others have expressed concerns that the current damages system systematically overcompensates patent proprietors. Some suggest that the usual rule regarding attorney fees—under which each side most often pays its own fees—may encourage aggressive enforcement tactics by "patent assertion entities," which are sometimes pejoratively called patent trolls.

Damages often occur in the context of a patent that covers a single feature of a multi-component product. In addition, many of these other components are subject to additional patents with a fragmented ownership. The courts have developed such principles as the "entire market value rule" and have also addressed the concept of "royalty stacking," in order to address these issues. Legislation was introduced before Congress relating to these matters, but these bills were not enacted.

Current law allows courts to award enhanced damages in exceptional cases, which ordinarily applies to circumstances of willful infringement or litigation misconduct. Recent Supreme Court decisions appear to have increased the likelihood that enhanced damages will be awarded, in contrast to earlier legislative proposals that were more restrictive.

Bills in the 114th Congress would have called for the prevailing party to be awarded its attorney fees in patent litigation. Under these proposals, fees would not be awarded if the nonprevailing party's position and conduct were justified or special circumstances made the award unjust. This legislation was not enacted, but it may be reintroduced in the 115th Congress.

Design patents are subject to a special damages statute which asserts that anyone who sells an "article of manufacture" containing the patented design may be liable to the patent owner "to the extent of his total profit." In its 2016 decision in *Samsung v. Apple*, the Supreme Court ruled that an "article of manufacture" need not consist of the entire product sold to consumers, but could also mean a portion of a multi-component product. This ruling appears to have decreased the damages available for the infringement of design patents that apply to products with multiple features.

In the 115th Congress, the STRONGER Patents Act of 2017, S. 1390, would modify the principles governing the award of an injunction against an adjudicated patent infringer. S. 1390 would establish a presumption that future infringements would cause irreparable injury and that legal remedies, such as damages, are inadequate to compensate for those infringements. This proposal would increase the likelihood that patentees could obtain an injunction against infringers.

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Introduction

Some Members of Congress have expressed interest in the judicial award of remedies for patent infringement for more than a decade. Several bills introduced in previous sessions of Congress proposed reforms to damages and injunctions principles in patent law.[1] These bills were not enacted, however, and the changes made by the Leahy-Smith America Invents Act (AIA), P.L. 112-29, were more limited.[2] Still, concerns over the availability of remedies for patent infringement remain, as evidenced by the introduction of legislation in the 115th Congress addressing the award of injunctions.[3]

Current law calls for the award of monetary damages against adjudicated infringers at an amount adequate to compensate for the infringement, but in no event less than a reasonable royalty.[4] It also allows courts to increase the amount of damages up to three times that amount.[5] Courts are also authorized to grant injunctions in "accordance with the principles of equity."[6] In addition, attorney fees may be awarded in "exceptional cases."[7]

Persistent concerns have arisen over whether judicial remedies for patent infringement are predictable and appropriate in view of the patent owner's inventive contribution.[8] For example, determinations of the appropriate level of damages and whether an injunction should be awarded become more complex when the patented invention forms just one feature of a complex, multi-component device, such as a cellular telephone.[9] In addition, many commercialized products implicate hundreds or thousands of patents, in addition to those asserted in a particular litigation, and are owned by numerous unrelated enterprises. Accounting for "royalty stacking" may prove to be a difficult matter in particular cases.[10] Other observers assert that the more routine award of attorney fees to the prevailing party would discourage what they view as abusive assertions of patent rights.[11]

[1] See, e.g., Patent Reform Act of 2007, H.R. 1908, 110th Cong, §5 (2007); Patent Reform Act of 2005, H.R. 2795, 109th Cong., §6 (2005).

[2] The single provision of the AIA pertaining to damages, Section 17, established 35 U.S.C. §298. That provision provides in full: "The failure of an infringer to obtain the advice of counsel with respect to any allegedly infringed patent, or the failure of the infringer to present such advice to the court or jury, may not be used to prove that the accused infringer willfully infringed the patent or that the infringer intended to induce infringement of the patent." See Josh Friedman, "Apportionment: Shining the Light of Day on Patent Damages," *Case Western Reserve Law Review*, vol. 63 (Fall 2012), p. 147 (observing that "damage reform was ignored altogether in the America Invents Act.").

[3] S. 1390, 115th Cong. (2017).

[4] 35 U.S.C. §284.

[5] Ibid.

[6] 35 U.S.C. §283.

[7] 35 U.S.C. §285.

[8] See, e.g., William F. Lee and Douglas Melamed, "Breaking the Vicious Cycle of Patent Damages," *Cornell Law Review*, vol. 101 (2016), p. 385; Ted Sichelman, "Purging Patent Law of "Private Law" Remedies," *Texas Law Review*, vol. 92 (2014), p. 517; Thomas F. Cotter, "Reining in Remedies in Patent Litigation: Three (Increasingly Immodest) Proposals," *Santa Clara High Technology Journal*, vol. 30 (2013), p. 1.

[9] Richard L. Stroup, Cecilia Sanabria, and Kelly C. Lu, et al., "Patentee's Monetary Recovery from an Infringer—A Revisit," *Journal of the Patent and Trademark Office Society*, vol. 98 (2016), p. 727.

[10] Mark A. Lemley and Carl Shapiro, "Patent Holdup and Royalty Stacking," *Texas Law Review*, vol. 85 (2007), p. 1991.

[11] See, e.g., Prachi Agarwal, "Patent Troll: The Brewing Storm of Patent Reform in the United States of America," *John Marshall Review of Intellectual Property Law*, vol. 15 (2015), p. 63.

This report reviews the current state of the law of patent remedies and surveys reform proposals that have come before Congress. It begins with a brief review of the basic workings of the patent system. The report then considers the award of compensatory damages for patent infringement, attorney fees, and enhanced damages. It then considers the special damages rules for design patents and reviews the law of injunctions.

Patent System Fundamentals

Individuals and firms must prepare and submit applications to the U.S. Patent and Trademark Office (USPTO) if they wish to obtain patent protection.[12] USPTO officials, known as examiners, then assess whether the application merits the award of a patent. Under the Patent Act of 1952, a patent application must include a specification that so completely describes the invention that skilled artisans are able to practice it without undue experimentation.[13] The Patent Act also requires that applicants draft at least one claim that particularly points out and distinctly claims the subject matter that they regard as their invention.[14]

While reviewing a submitted application, the examiner will determine whether the claimed invention fulfills certain substantive standards set by the patent statute. Two of the most important patentability criteria are novelty and nonobviousness. To be judged novel, the claimed invention must not be fully anticipated by a prior patent, publication, or other knowledge within the public domain.[15] The sum of these earlier materials, which document state-of-the-art knowledge, is termed the "prior art." To meet the standard of nonobviousness, an invention must not have been readily within the ordinary skills of a competent artisan based upon the teachings of the prior art.[16]

If the USPTO allows the application to issue as a granted patent, the owner or owners of the patent obtain the right to exclude others from making, using, selling, offering to sell, or importing into the United States the claimed invention.[17] The term of the patent is ordinarily set at twenty years from the date the patent application was filed.[18] Patent title therefore provides inventors with limited periods of exclusivity in which they may practice their inventions, or license others to do so. The grant of a patent permits inventors to receive a return on the expenditure of resources leading to the discovery, often by charging a higher price than would prevail in a competitive market.

A patent proprietor bears responsibility for monitoring its competitors to determine whether they are using the patented invention. Patent owners who wish to compel others to observe their intellectual property rights must usually commence litigation in the federal courts. Although issued patents enjoy a presumption of validity, accused infringers may assert that a patent is invalid or unenforceable on a number of grounds.[19] The U.S. Court of Appeals for the Federal

[12] 35 U.S.C. §111.

[13] 35 U.S.C. §112(a).

[14] 35 U.S.C. §112(b).

[15] 35 U.S.C. §102.

[16] 35 U.S.C. §103.

[17] 35 U.S.C. §271.

[18] 35 U.S.C. §154(a)(2).

[19] 35 U.S.C. §282.

Circuit (Federal Circuit) possesses national jurisdiction over most patent appeals.[20] The U.S. Supreme Court retains discretionary authority to review cases decided by the Federal Circuit.[21]

A court may subject adjudicated patent infringers to several remedies that are awarded to the victorious patent proprietor. These remedies include injunctions,[22] monetary damages,[23] and attorney fees.[24] The Patent Act also allows for damages to be increased up to three times for cases of willful infringement.[25] In contrast to copyrights[26] and trademarks,[27] criminal sanctions do not apply to patent infringement.

Damages

General Principles

The Patent Act succinctly provides for the award of damages "adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use of the invention made by the infringer."[28] In practice, patent proprietors seek to obtain their lost profits as damages when they are able to provide appropriate evidence. Otherwise a reasonable royalty serves as the default measure of damages.

A patent proprietor may obtain damages based upon its lost profits if it can demonstrate that "but for" the infringement, it would have made the infringer's sales.[29] Such an analysis must be supported by "sound economic proof of the nature of the market and likely outcomes with infringement factored out of the economic picture."[30] For example, a patent proprietor may obtain lost profit damages if it can demonstrate that (1) the patented invention was in demand; (2) no acceptable noninfringing substitutes were available; (3) the patent proprietor possessed the manufacturing and marketing ability to exploit the demand; and (4) the amount of profit the patent proprietor would have made.[31]

If the patent proprietor cannot demonstrate entitlement to its lost profits, then it may claim damages in the form of a reasonable royalty. To determine this amount, courts typically use one of two approaches. The first, the so-called "analytical approach," provides the patent proprietor with a percentage of the infringer's profits.[32] The second, more common approach is based upon a hypothetical negotiation. Under this technique, the reasonable royalty is set to the rate a willing

[20] 28 U.S.C. §1295(a)(1).

[21] 28 U.S.C. §1254(1).

[22] 35 U.S.C. §283.

[23] 35 U.S.C. §284.

[24] 35 U.S.C. §285.

[25] 35 U.S.C. §284.

[26] 17 U.S.C. §506.

[27] 18 U.S.C. §2320.

[28] 35 U.S.C. §284.

[29] *Akamai Techs. Inc. v. Limelight Networks, Inc.*, 805 F.3d 1368 (Fed. Cir. 2015).

[30] Ibid. (citations omitted).

[31] See *Mentor Graphics Corp. v. EVE-USA, Inc.,* 851 F.3d 1275 (Fed. Cir. 2017).

[32] See *Lucent Techs., Inc. v. Gateway, Inc.*, 580 F.3d 1301 (Fed. Cir. 2009).

patent proprietor and willing licensee would have decided upon had they negotiated the license on the date the infringement began.[33]

Courts consider many factors when determining the outcome of the hypothetical negotiation. The often cited opinion in *Georgia-Pacific Corp. v. United States Plywood Corp.* provides a fifteen-factor list.[34] Actual royalty rates charged by the patent proprietor, or paid by the adjudicated infringer on comparable patents, will be considered if such evidence is available. Other factors include the advantages of the patented invention, the availability of noninfringing substitutes, the infringer's expected profits, the commercial relationship between the patent proprietor and the infringer, and industry licensing practices.

For many years, reasonable royalty determinations were guided by the so-called "25% Rule." Under this principle, 25% of the infringer's profits serve as the baseline determinant for reasonable royalty damages.[35] However, in its 2011 decision in *Uniloc USA, Inc. v. Microsoft Corp*.,[36] the Federal Circuit rejected the 25% Rule. The Federal Circuit explained that the 25% Rule failed to tie a reasonable royalty base to the facts of the case at issue, even when used as a starting point. "Beginning from a fundamentally flawed premise and adjusting it based on legitimate considerations specific to the facts of the case nevertheless results in a fundamentally flawed conclusion," the Court of Appeals explained.[37]

The Patent Act limits recovery to six years prior to the filing of a complaint or counterclaim for patent infringement.[38] For example, suppose that an inventor obtained a patent on May 1, 2007. A competitor began infringing the patent on June 1, 2008, but the inventor did not bring a suit for patent infringement until July 1, 2017. Under these facts, the period for which the inventor may recover infringement damages commences on July 1, 2011. Note that courts will ordinarily award prejudgment interest on such awards in order to compensate the patent proprietor fully for harms suffered during that six-year period, however.[39]

The availability of damages may also be limited under the so-called "marking" statute. The Patent Act encourages patent proprietors and their licensees to affix the word "patent" or the abbreviation "pat.," along with the number of the patent, on patented articles or their packaging.[40] Alternatively, the patent holder may provide an Internet address with a posting that associates the patented article with the number of the patent. If the patent proprietor does not mark its product, then damages are available only after the infringer was specifically notified of the infringement. Filing of an action for infringement qualifies as notice under the marking statute.[41]

Ordinarily, patent proprietors may only collect damages for patent infringement that takes place during the term of a patent—that is to say, after the USPTO issues the patent and prior to its

[33] See *Prism Techs. LLC v. Sprint Spectrum L.P.*, 849 F.3d 1360 (Fed. Cir. 2017).

[34] 318 F.Supp. 1116 (S.D.N.Y. 1970), *modified and aff'd*, 446 F.2d 295 (2d. Cir. 1970).

[35] Roy J. Epstein, "The '25% Rule' for Patent Infringement Damages After *Uniloc*," *Duke Law & Technology Review*, vol. 2012 (January 29, 2012), p. 1.

[36] 632 F.3d 1292 (Fed. Cir. 2011).

[37] Ibid. at 1317.

[38] 35 U.S.C. §286.

[39] See *Comcast IP Holdings I LLC v. Sprint Comms. Co.*, 850 F.3d 1302, 1315 (Fed. Cir. 2017) ("Prejudgment interest runs from the earliest date of infringement.... "). Its purpose is "to ensure that the patent owner is placed in as good a position as he would have been" absent the infringement. Ibid.

[40] 35 U.S.C. §287(a).

[41] See generally *Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc.*, 711 F.3d 1348 (Fed. Cir. 2013).

expiration date.[42] The Patent Act provides one exception to this rule. Under current law, pending patent applications may be published "promptly after the expiration of a period of 18 months from the ... filing date."[43] If the infringer had "actual notice" of such a published application, then the patent proprietor may obtain a reasonable royalty between the date notice was provided and the date the patent issued.[44]

Debate over Patent Damages Awards

Many observers have criticized patent damages awards as being uncertain and excessive, leading to social harms. For example, the *Georgia Pacific* factors—a list of fifteen factors to be considered within the context of a hypothetical negotiation—have been "widely criticized as ambiguous, unworkable, inherently contradictory, and circular."[45] Others have expressed concern that patent infringement—a strict liability offense that occurs whether or not the infringer knew of the patent prior to being sued—presumes that technology users are able to discover relevant patents in advance and either design around them or negotiate patent licenses. This account may not hold true today given the number and fragmented ownership of potentially relevant patents. As a result, such preclearance may be both infeasible as a practical matter and undesirable as a matter of economic policy.[46]

On the other hand, other stakeholders believe that the possibility of a significant damages award is needed to afford patents respect in the marketplace,[47] particularly in an era where courts are more circumspect in granting injunctions than in previous years.[48] They also believe that limits on patent damages will reduce incentives to innovate and develop new products.[49] Others believe that judges and juries are not well-positioned to engage in more sophisticated damages determinations, such as assessing the incremental economic value of a patented invention over the prior art.[50]

Apportionment of Damages

Marketplace realities often render the determination of an appropriate damages award a difficult proposition in patent litigation. In some cases, the product or process that is found to infringe may incorporate numerous additional elements beyond the patented invention. For example, the asserted patent may relate to a windshield wiper, while the accused product consists of the entire automobile. In such circumstances, a court may apply "the entire market value rule": if a party

[42] See *Rosebud LMS Inc. v. Adobe Sys. Inc.*, 812 F.3d 1070 (Fed. Cir. 2016).

[43] 35 U.S.C. §122(b).

[44] 35 U.S.C. §154(d).

[45] Stuart Graham, Peter Menell, and Carl Shapiro, et al., *Final Report of the Berkeley Center for Law & Technology Patent Damages Workshop*, August 15, 2016, pp. 1-2, https://www.law.georgetown.edu/continuing-legal-education/programs/academic-conferences/Patent-Law/upload/Berkeley-Patent-Damages-Final-Report-2016-08-15.pdf.

[46] William F. Lee and A. Douglas Melamed, "Breaking the Vicious Cycle of Patent Damages," *Cornell Law Review*, vol. 101 (January 2016), p. 385.

[47] See Kory D. Christensen, "Recent Developments in the Patent Reform Movement: Potential Benefits and Unintended Consequences," *Aspatore*, (2009), 2009 WL 535243.

[48] See Graham et al., at 1.

[49] Don Tiller, "Devaluing Invention: The Push for Patent Reform," *Texas Wesleyan Law Review*, vol. 14 (2007), p. 119.

[50] Letter from The Honorable Paul R. Michel, Chief Judge, United States Court of Appeals for the Federal Circuit, to Senator Patrick Leahy, May 3, 2007.

can prove that the patented invention drives demand for the accused end product, it can rely on the end product's entire market value as the royalty base.[51]

On the other hand, if the court determines that the infringing sales were due to many factors beyond the use of the patented invention, the court may apply principles of "apportionment" to reach a just measure of damages for infringement. In such cases, the "smallest salable patent-practicing unit principle provides that, where a damages model apportions from a royalty base, the model should use the smallest salable patent-practicing unit as the base."[52]

Some observers believe that "application of the entire market value rule routinely overcompensates patentees and thereby exacerbates many problems inherent in the current system for awarding patent infringement damages."[53] They reason that the know-how, materials, and marketing efforts of the adjudicated infringer virtually always contribute some, and often substantial, value to the infringing product.[54] Other observers disagree, believing that the courts have reasonably applied the entire market value rule and apportionment principles. In their view, apportionment devalues patents and incentives to invest in research and development.[55] Further, they assert that to the extent problems existed a decade ago, courts have identified them and began to tighten application of the entire market value rule.[56]

Bills introduced in a previous Congress proposed statutory modifications to patent damages provisions. For example, in the 111th Congress, the Patent Reform Act of 2009 (H.R. 1260) would have required courts to conduct "an analysis to ensure that a reasonable royalty is applied only to the portion of the economic value of the infringing product or process properly attributable to the claimed invention's specific contribution over the prior art."[57] This legislation was not enacted.

Royalty Stacking

"Royalty stacking" refers to circumstances where a single product, such as a smartphone or automobile, may infringe many patents. For example, one recent study determined that the numerous potential royalty demands on a smartphone could equal or exceed the cost of its components.[58] The manufacturer of such a product must add or "stack" each of the claims for royalties in order to sell it without risk of patent litigation.[59]

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[51] *Commonwealth Scientific and Indus. Research Org. v. Cisco Systems, Inc.*, 809 F.3d 1295, 1302 (Fed. Cir. 2015).

[52] Ibid.

[53] Brian J. Love, "Patent Overcompensation and the Entire Market Value Rule," *Stanford Law Review*, vol. 60 (October 2007), p. 263.

[54] See Mark A. Lemley, "Distinguishing Lost Profits from Reasonable Royalties," *William and Mary Law Review*, vol. 51 (November 2009), p. 655.

[55] See Scott Shane, *The Likely Adverse Effects of an Apportionment-Centric System of Patent Damages*, Manufacturing Alliance on Patent Policy, January 14, 2009, https://www.ftc.gov/sites/default/files/documents/public_comments/public-hearings-concerning-evolving-intellectual-property-marketplace-540872-00014/540872-00014.pdf.

[56] See, e.g., Jaimeson Fedell, "A Step in the Right Direction: Patent Damages and the Elimination of the Entire Market Value Rule," *Minnesota Law Review*, vol. 98 (February 2014), p. 1143 (observing that courts have been increasingly skeptical of the entire market value rule).

[57] H.R. 1260, 111th Congress, §5(a).

[58] Ann Armstrong, Joseph J. Mueller, and Timothy D. Syrett, *The Smartphone Royalty Stack: Surveying Royalty Demands for the Components Within Modern Smartphones*, Working Paper, https://www.wilmerhale.com/uploadedFiles/Shared_Content/Editorial/Publications/Documents/The-Smartphone-Royalty-Stack-Armstrong-Mueller-Syrett.pdf.

[59] Mark A. Lemley and Carl Shapiro, "Patent Holdup and Royalty Stacking," *Texas Law Review*, vol. 85 (June 2007), p. 1991.

Some district courts have ruled that, when determining a royalty rate for the infringement of a particular patent, they should also consider the royalty burden associated with other patents potentially covering the infringing product. Otherwise the damages award might overvalue the individual patent asserted in that litigation. [60] This inquiry appears to be a complex endeavor, as identifying and predicting patents that might be asserted against a particular product is an uncertain exercise. The Supreme Court and Federal Circuit have yet to address the issue of royalty stacking, however, and no legislation has been placed before Congress that would address the issue.

Attorney Fees

Current Law

Patent cases traditionally followed the "American Rule" with respect to attorney fees. Each litigant ordinarily pays its own fees in the United States, win or lose, in contrast to the "English Rule" where the losing party must compensate the lawyers for the prevailing litigant.[61] Current law provides for a relatively limited exception to this principle. In patent cases, 35 U.S.C. §285 provides that the "court in exceptional cases may award reasonable attorney fees to the prevailing party."[62]

In its 2014 ruling in *Octane Fitness, LLC v. Icon Health & Fitness Inc.,*[63] the Supreme Court held that an "exceptional case" is "one that stands out from others with respect to the substantive strength of a party's litigating position (considering both the governing law and the facts of the case) or the unreasonable manner in which the case was litigated." The Court explained that relevant factors included the frivolousness of the litigant's assertions, its motivations, objective unreasonableness, and the need to compensate one litigant or deter another.[64]

The Court further explained that district courts should resolve Section 285 determinations by considering the "totality of the circumstances." Further, a prevailing party must demonstrate its entitlement to attorney fees by a "preponderance of the evidence." In a companion case decided the same day as *Octane Fitness*, *Highmark, Inc. v. Allcare Health Management System Inc.*,[65] the Supreme Court ruled that the Federal Circuit should review the district court's Section 285 determination under an abuse-of-discretion standard.

Octane Fitness and *Highmark* are widely viewed as overturning more restrictive standards previously employed by the Federal Circuit.[66] As a result, district courts possess greater discretion in deciding whether to award fees and appear to be shifting fees more frequently.[67] Some

[60] See, e.g., *In re Innovatio IP Ventures, LLC Patent Litigation*, 2013 WL 5593609 (N.D. Ill. 2013).

[61] Hannah Jiam, *"Fee-Shifting and Octane Fitness: An Empirical Approach Toward Understanding 'Exceptional,'" Berkeley Technology Law Journal*, vol. 30 (2015), p. 611.

[62] See CRS Legal Sidebar WSLG924, *Supreme Court Lowers Standard for When Attorney's Fees May Be Awarded in Patent Cases*, by Brian T. Yeh.

[63] 134 S.Ct. 1749 (2014).

[64] Ibid. at 1756, n.6.

[65] 134 S.Ct. 1744 (2014).

[66] See, e.g., Darin Jones, "A Shifting Landscape for Shifting Fees: Attorney-Fee Awards in Patent Suits After *Octane* and *Highmark*," *Washington Law Review*, vol. 90 (2015), p. 505.

[67] See, e.g., W. Keith Robinson, "Awarding Attorney Fees and Deterring "Patent Trolls," *Lewis & Clark Law Review*, vol. 20 (2016), p. 281.

commentators believe that these decisions may discourage a practice known as "patent trolling"—the purchase and enforcement of patents by "non-practicing" or "assertion entities" against businesses that use or sell the patented inventions.[68] They cite, for example, the decision in *Lumen View Technology, LLC v. Findthebest.com, Inc.*, where the court awarded attorney fees to the accused infringer due in part to the following reasoning:

> The "deterrence" prong of the *Octane Fitness* test also weighs in favor of an exceptional case finding. The boilerplate nature of Lumen's complaint, the absence of any reasonable pre-suit investigation, and the number of substantially similar lawsuits filed within a short time frame, suggests that Lumen's instigation of baseless litigation is not isolated to this instance, but is instead part of a predatory strategy aimed at reaping financial advantage from the inability or unwillingness of defendants to engage in litigation against even frivolous patent lawsuits. The need "to advance considerations of ... deterrence" of this type of litigation behavior is evident.[69]

Commentators are quick to note, however, that fee shifting remains the exception, and not the default, following the *Octane Fitness* ruling.[70]

Proposed Legislation in the 114th Congress

As of the publication of this report, no bill had been introduced in the 115th Congress that concerned fee shifting in patent cases. However, several bills introduced, but not enacted, in the 114th Congress addressed this topic.[71] The Innovation Act, H.R. 9 in the 114th Congress, would have amended Section 285 to require a court to award attorney fees to a prevailing party in any patent case. The bill would have established two exceptions to this general rule: (1) where the position and conduct of the nonprevailing party were reasonably justified in law and fact; or (2) that special circumstances (such as severe economic hardship to a named inventor) make an award unjust.[72]

The Protecting American Talent and Entrepreneurship Act (PATENT) Act of 2015, S. 1137 in the 114th Congress, expressed the "sense of Congress that, in patent cases, reasonable attorney fees should be paid by a nonprevailing party whose litigation position or conduct is not objectively reasonable."[73] The PATENT Act would have also amended Section 285 to allow for fee-shifting. Under this legislation, if the court finds that the position or conduct of the non-prevailing party was not objectively reasonable, then the court shall award reasonable attorney fees to the prevailing party. Fees would not be shifted if special circumstances, such as undue economic hardship to a named inventor or an institution of higher education, would make an award unjust.

A key difference between the Innovation Act and the PATENT Act was the burden of proof. Under the Innovation Act, fees would be shifted unless the nonprevailing party could demonstrate that an exception existed. In contrast, under the PATENT Act the prevailing party carried the

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[68] See Aria Soroudi, "Defeating Trolls: The Impact of Octane and Highmark on Patent Trolls," *Loyola of Los Angeles Entertainment Law Review*, vol. 35 (2015), p. 319. For a discussion of patent trolling, see CRS Report R42668, *An Overview of the "Patent Trolls" Debate*, by Brian T. Yeh.

[69] *Lumen View Technology, LLC v. Findthebest.com, Inc.*, 24 F.Supp.3d 329 (S.D.N.Y. 2014).

[70] Jared A. Smith and Nicholas R. Transier, "Trolling for an NPE Solution," *Hastings Science & Technology Law Journal*, vol. 7 (2015), p. 215.

[71] Portions of this report were adopted from CRS Report R43979, *Patent Litigation Reform Legislation in the 114th Congress*, by Brian T. Yeh.

[72] H.R. 9, 114th Congress, at §3(b)(1).

[73] S. 1137, 114th Congress, at §7(a).

burden of demonstrating that it was entitled to an award. In addition, unlike the Innovation Act, the PATENT Act would have exempted from the fee-shifting provision any lawsuit that included a cause of action for patent infringement under 35 U.S.C. §271(e)(2).[74]

Both the Innovation Act and the PATENT Act would have also required interested parties to join the litigation if the nonprevailing party alleging infringement was unable to pay the fees awarded by a court.[75] These so-called "mandatory joinder" provisions responded to concerns that the entity asserting a patent might be a "shell company" owned by other enterprises with greater financial resources.[76]

Finally, the Support Technology and Research for Our Nation's Growth (STRONG) Patents Act of 2015, S. 632 in the 114th Congress, did not include a fee-shifting provision. However, Section 101 of that bill asserted a congressional finding that the Supreme Court's *Octane Fitness* and *Highmark* rulings "significantly reduced the burden on an alleged infringer to recover attorney fees from the patent owner, and increased the incidence of fees shifted to the losing party."

Proponents of a less restrictive fee-shifting provision believe that "allowing more liberal shifting of attorney fees against losing parties would reduce the frequency of such nuisance settlements, and would allow more defendants to challenge patents that are invalid or that have been asserted beyond what their claims reasonably allow."[77] On the other hand, those wary of fee-shifting provisions are concerned that they may benefit wealthy corporate parties to the disadvantage of individual inventors. They assert that "[a] 'loser pays' provision will deter patent holders from pursuing meritorious patent infringement claims and protects institutional defendants with enormous resources who can use the risk of fee-shifting to force inventors into accepting unfair settlements or dismissing their legitimate claims."[78]

Enhanced Damages

Section 284 of the Patent Act currently provides that the court "may increase the damages up to three times the amount found or assessed."[79] In its 2016 decision in *Halo Electronics, Inc. v. Pulse Electronics, Inc.*,[80] the Supreme Court clarified that awards of enhanced damages are "designed as a 'punitive' or 'vindictive' sanction for egregious infringement behavior."[81] Such a circumstance is commonly termed "willful infringement."[82]

In *Halo v. Pulse*, the Supreme Court emphasized that the award of enhanced damages lies within the discretion of the district judges in view of all of the circumstances. Although not subject to a

[74] 35 U.S.C. §271(e)(2) establishes a cause of action for infringement of patents covering, among other subject matter, pharmaceuticals and biologics in keeping with the Hatch-Waxman Act and the Biologics Price Competition and Innovation Act. See CRS Report R44643, *The Hatch-Waxman Act: A Primer*, by John R. Thomas; CRS Report R44173, *Follow-On Biologics: Intellectual Property Issues*, by John R. Thomas.

[75] H.R. 9, 114th Cong., at §3(c); S. 1137, 114th Cong., at §7(b).

[76] See CRS Report R43979, *Patent Litigation Reform Legislation in the 114th Congress*, by Brian T. Yeh.

[77] H.Rept. 113-279, at 12. This report accompanied H.R. 3309 in the 113th Congress, which was later passed by the House.

[78] Ibid. at 107 (quoting a letter from the American Association for Justice).

[79] See CRS Report R44622, *Patent Cases in the October 2015 Term of the U.S. Supreme Court: Halo Electronics v. Pulse Electronics and Cuozzo Speed Technologies v. Lee*, by Brian T. Yeh.

[80] 136 S.Ct. 1923 (2016).

[81] Ibid. at 1932.

[82] See *Alfred E. Mann Foundation v. Cochlear Corp.*, 841 F.3d 1334 (Fed. Cir. 2016).

"rigid formula," the award of enhanced damages may depend on such factors as whether the infringer intentionally copied the patent proprietor's product; whether the infringer acted in accordance with the standards of commerce for its industry; whether the infringer made a good faith effort to avoid infringing; whether there is a reasonable basis to believe that the infringers had a reasonable defense to infringement; and whether defendants tried to conceal their infringement.[83] The Supreme Court also clarified that the evidentiary threshold for an award of enhanced damages is the "preponderance of the evidence"[84] and that the Federal Circuit should review awards of enhanced damages under the "abuse of discretion" standard.[85] Commentators have widely viewed the *Halo v. Pulse* ruling as making awards of enhanced damages easier to obtain.[86]

Although bills directly addressing the topic of enhanced damages have not been placed before Congress in many years, these earlier proposals were more restrictive than the standards adopted in *Halo v. Pulse*. Indeed, in support of its ruling in *Halo v. Pulse*, the Supreme Court noted that Congress had considered bills calling for a higher standard of proof for willful infringement but had not enacted them.[87] For example, in the 111th Congress, the Patent Reform Act of 2009 (H.R. 1260) would have authorized a court to find willful infringement only where the patent proprietor proved by clear and convincing evidence that (1) the infringer received specific written notice from the patentee and continued to infringe after a reasonable opportunity to investigate; (2) the infringer intentionally copied from the patentee with knowledge of the patent; or (3) the infringer continued to infringe after an adverse court ruling. In addition, under H.R. 1260, willful infringement could be found where the infringer possessed an informed, good faith belief that its conduct was not infringing.[88]

The Leahy-Smith America Invents Act (AIA), P.L. 112-29, incorporated a single provision relating to the law of willful infringement. Section 17 of the AIA incorporated 35 U.S.C. §298 into the Patent Act. That provision provides:

> The failure of an infringer to obtain the advice of counsel with respect to any allegedly infringed patent, or the failure of the infringer to present such advice to the court or jury, may not be used to prove that the accused infringer willfully infringed the patent or that the infringer intended to induce infringement of the patent.

This provision was intended "to protect attorney-client privilege and to reduce pressure on accused infringers to obtain opinions of counsel for litigation purposes."[89] The AIA did not otherwise address the topic of willful infringement.

Patent law's willful infringement doctrine has proven controversial. Some observers believe that this doctrine ensures that patent rights will be respected in the marketplace.[90] Critics of the policy believe that the possibility of trebled damages discourages individuals from reviewing issued patents and challenging patents of dubious validity. Consequently some have argued that the

[83] See *Adrea, LLC v. Barnes & Noble, Inc.*, 2017 WL 44954 (S.D.N.Y. January 3, 2017).

[84] 136 S.Ct. at 1934.

[85] Ibid.

[86] See, e.g., Colleen V. Chien, "Contextualizing Patent Disclosure," *Vanderbilt Law Review*, vol. 69 (November 2016), p. 1849.

[87] 136 S.Ct. at 1935.

[88] H.R. 1260, 111th Cong, at §5(a).

[89] H.Rept. 112-98, at 53.

[90] Robert O. Bolan and William C. Rooklidge, "Imputing Knowledge to Determine Willful Patent Infringement," *AIPLA Quarterly Journal*, vol. 24 (1996), p. 157.

patent system should shift to a "no-fault" regime of strictly compensatory damages, without regard to the state of mind of the adjudicated infringer.[91]

Design Patents

In addition to granting so-called "utility patents" directed towards machines, manufactures, compositions of matter and processes,[92] the Patent Act of 1952 also allows for "design patents."[93] An inventor may obtain a design patent by filing an application with the USPTO directed towards a "new, original and ornamental design for an article of manufacture."[94] Most design patent applications consist primarily of drawings that depict the shape or surface decoration of a particular product. They may concern any number of products, including automobile parts, containers, electronics products, home appliances, jewelry, textile designs, and toys.

To obtain protection, the design must not have been obvious to a designer of ordinary skill of that type of product.[95] In addition, a design must be "primarily ornamental" to be awarded design patent protection.[96] If the design is instead dictated by the performance of the article, then it is judged to be functional and ineligible for design patent protection.[97]

Issued design patents confer the right to exclude others from the "unauthorized manufacture, use, or sale of the article embodying the patented design or any colorable imitation thereof."[98] The scope of protection of a design patent is provided by drawings within the design patent instrument. To establish infringement, the design patent proprietor must prove that "in the eye of an ordinary observer, giving such attention as a purchaser usually gives," the patented and accused designs "are substantially the same, if the resemblance is such as to deceive such an observer, inducing him to purchase one supposing it is the other."[99] The term of a design patent is 15 years from the date the USPTO issues the patent.[100]

Design patents are subject to a distinct statutory provision with respect to damages than other sorts of patents. 35 U.S.C. §289 provides that a person who manufactures or sells "any article or manufacture to which a [patented] design or colorable imitation has been applied shall be liable to the extent of his total profit, but not less than $250." Section 289 goes on to state that "[n]othing in this section shall prevent, lessen, or impeach any other remedy which an owner of an infringed patent has under the provisions of this title, but he shall not twice recover the profit made from the infringement."

The effect of 35 U.S.C. §289 is to provide a design patent holder with two damages options. Like other sorts of patent proprietors, a design patent holder may obtain its own lost profits or

[91] See Samuel Chase Means, "The Trouble with Treble Damages: Ditching Patent Law's Willful Infringement Doctrine and Enhanced Damages," *University of Illinois Law Review*, vol. 2013 (2013), p. 1999.

[92] 35 U.S.C. §101.

[93] See CRS Report RL34559, *Intellectual Property in Industrial Designs: Issues in Innovation and Competition*, by John R. Thomas.

[94] 35 U.S.C. §171.

[95] 35 U.S.C. §103.

[96] Andrew Beckerman-Rodau, "Design Patent Evolution: From Obscurity to Center Stage," *Santa Clara High Technology Law Journal*, vol. 32 (2015), p. 53.

[97] *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141 (1989).

[98] 35 U.S.C. §289.

[99] *Gorham Co. v. White*, 14 Wall. 511, 20 L.Ed. 731 (1872).

[100] 35 U.S.C. §173.

reasonable royalties from the adjudicated infringer. Alternatively, the design patent holder may obtain the profits of the adjudicated infringer due to the infringement, so long as no double recovery occurs.

The 2016 Supreme Court decision in *Samsung Electronics Co. v. Apple Inc.*[101] is widely perceived as interpreting this provision in a narrow fashion.[102] In that case, Apple owned several design patents pertaining to its iPhone, including a patent claiming a black rectangular front face with rounded corners; another patent claiming a rectangular front face with rounded corners and a raised rim; and a third patent claiming a grid of 16 colorful icons on a black screen.[103] The lower courts held that Samsung had infringed the patents and was liable for the entire profit it made selling its infringing smartphones.[104]

The Supreme Court reversed and remanded the case for a new determination of damages. The Court began its analysis by concluding that arriving at a damages calculation under §289 involves two steps: (1) "identify the 'article of manufacture' to which the infringed design has been applied," and (2) "calculate the infringer's total profit made on that article of manufacture."[105] The Court then determined the scope of the phrase "article of manufacture" with respect to a multi-component product like an iPhone. Rejecting the view that the "article of manufacture" must always mean the end product sold to the consumer, the Court ultimately held that the term "article of manufacture," as used in §289, could encompasses both (1) a product sold to a consumer and (2) a component of that product, whether that component is sold separately or not.[106] The Supreme Court therefore required that the lower courts identify the relevant article of manufacture that Samsung infringed and adjust the damages total accordingly.

Reactions to the ruling in *Samsung v. Apple* have varied. Some commentators believe that the lower courts had allowed Apple to recover damages that were disproportionate to Samsung's infringement. They observe that smartphones incorporate many features that were unrelated to the design patents asserted by Apple.[107] Others assert the view that designs often sell the products with which they are associated. As a result, assessing the total profits due to the infringement is appropriate. They believe that the Supreme Court's ruling adversely affects the value of design patents and obligates the lower courts to reach difficult decisions when accused infringers assert that the patented "design for an article of manufacture" is in fact less than the entirety of the product they are selling.[108]

[101] 137 S.Ct. 429 (2016).

[102] See Sarah Burnick, "The Importance of the Design Patent to Modern Day Technology: The Supreme Court's Decision to Narrow the Damages Clause in Samsung v. Apple," *North Carolina Journal of Law & Technology Online Edition*, vol. 18 (April 2017), p. 283.

[103] 137 S.Ct. at 433.

[104] Ibid. at 434.

[105] Ibid.

[106] Ibid. at 435.

[107] See James M. Starling, Seth R. Ogden, and Ryan D. Levy, "Design Patent Damages Awards Under *Apple v. Samsung*," *Tennessee Bar Journal,* vol. 51 (September 2015), p. 20.

[108] Saidman DesignLaw Group, *The Supreme Court Uses a Dictionary to Gut Design Patents*, December 12, 2016, http://www.designlawgroup.com/2016/12/the-supreme-court-uses-a-dictionary-to-gut-design-patents/.

Injunctions

Current Law

35 U.S.C. §283 provides that "[t]he several courts having jurisdiction of cases under this title may grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable." Prior to the issuance of the Supreme Court decision in *eBay, Inc. v. MercExchange, L.L.C.*,[109] some commentators had expressed concerns that the Federal Circuit interpreted this provision as requiring courts to issue an injunction upon a finding of patent infringement absent exceptional circumstances. In their view, the threat of an injunction would encourage patent proprietors to demand royalty rates in excess of the economic contribution of the patented technology. In essence, accused infringers might have been pressured to pay a premium to "buy off" the injunction, or risk being sued and enjoined by a court, particularly in circumstances where the patented invention formed just one component of a larger, combination product.[110]

Such concerns may have motivated proposals to amend 35 U.S.C. §283. For example, the Patent Reform Act of 2005, H.R. 2795 in the 109th Congress, proposed to add the following language to that provision:

> In determining equity, the court shall consider the fairness of the remedy in light of all the facts and the relevant interests of the parties associated with the invention. Unless the injunction is entered pursuant to a nonappealable judgment of infringement, a court shall stay the injunction pending an appeal upon an affirmative showing that the stay would not result in irreparable harm to the owner of the patent and that the balance of hardships from the stay does not favor the owner of the patent.[111]

However, shortly after this proposed reform was introduced, the Supreme Court issued the *eBay* case. In that case the Court concluded that the Federal Circuit had inappropriately concluded that injunctions were strongly favored each time a patent was infringed. Instead, the lower courts were to consider the appropriateness of awarding of an injunction on a case-by-case basis. In particular, the patent proprietor must demonstrate that (1) it has suffered an irreparable injury; (2) remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) considering the balance of hardships between the patent proprietor and adjudicated infringer, a remedy in equity is warranted; and (4) the public interest would not be disserved by a permanent injunction.[112]

The *eBay* decision is regarded as having a substantial impact on patent law remedies.[113] One empirical study concluded that since *eBay*, patent proprietors that practice the patented invention usually obtain permanent injunctions when they prevail. In contrast, courts generally deny injunctive relief to non-practicing entities and firms that do not compete with the adjudicated infringer in the marketplace.[114]

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[109] 547 U.S. 388 (2006).

[110] See, e.g., Lemley & Shapiro, supra.

[111] H.R. 2795, 109th Cong., at §7.

[112] 547 U.S. at 391.

[113] See, e.g., James M. Fischer, "What Hath *eBay v. MercExchange* Wrought?," *Lewis & Clark Law Review*, vol. 14 (Summer 2010), p. 555.

[114] See Christopher B. Seaman, "Permanent Injunctions in Patent Litigation After *eBay*: An Empirical Study," *Iowa*

(continued...)

Although the issuance of an injunction is subject to principles of equity in most patent cases, Congress has mandated that an injunction issue in certain circumstances. Notably, in patent infringement cases brought under the Drug Price Competition and Patent Term Restoration Act of 1984 (commonly referred to as the Hatch-Waxman Act), P.L. 98-417, and Biologics Price Competition and Innovation Act of 2009, P.L. 111-148, the relevant statute dictates that a court "shall" order an injunction in favor of the prevailing patent proprietor.[115] These cases ordinarily involve patented pharmaceuticals and biologics.

Proposed Legislation in the 115th Congress

On June 21, 2017, Senators Coons, Cotton, Durbin, and Hirono introduced S. 1390, the Support Technology and Research for Our Nation's Growth and Economic Resilience (STRONGER) Patents Act of 2017. Section 106 of the bill, titled "Restoration of patents as property rights," provides in principal part:

> Upon a finding by a court of infringement of a patent not proven invalid or unenforceable, the court shall presume that—
>
> (1) further infringement of the patent would cause irreparable injury; and
>
> (2) remedies available at law are inadequate to compensate for that injury.

This proposal would therefore establish a presumption that two of the four *eBay* factors support the grant of an injunction in cases of patent infringement. Under current law, the patentee must demonstrate that the four *eBay* factors support the award of an injunction against an adjudicated infringer. The STRONGER Patents Act would instead place the burden of proof upon the adjudicated infringer to demonstrate that (1) future infringement would not cause an irreparable injury and (2) legal remedies, such as monetary damages, would compensate for future infringement.

Concluding Observations

Considerable discussion of the appropriateness of patent infringement remedies occurred in connection with the reform legislation that resulted in the America Invents Act. As ultimately enacted, however, the AIA addressed only the law of willful infringement. Since the enactment of the AIA, the Supreme Court and the Federal Circuit have issued a number of additional opinions addressing this topic. Stakeholders have nonetheless expressed concerns about the fairness, predictability, and accuracy of remedies for patent infringement; although some observers believe that the level of judicial compensation to patent proprietors is appropriate. Given the significance of remedies in rewarding invention, promoting competition, encouraging patent acquisition and enforcement, and contributing to an efficient innovation environment, congressional interest in this topic appears unlikely to diminish in coming years.

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Law Review, vol. 101 (2016), p. 1949.

[115] 35 U.S.C. §271(e)(4).

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