

Enhanced Damages Necessary In No-Injunction Patent System

By **David Kappos and Jonathan Barnett** (February 2, 2023, 7:38 PM EST)

In *eBay Inc. v. MercExchange LLC*,^[1] decided in 2006, the U.S. Supreme Court departed from the long-standing principle that a patent owner is presumptively entitled to an injunction once it defends validity and demonstrates infringement.

This decision dramatically changed the landscape of patent enforcement, incentivizing infringement and throwing license negotiations out of balance.

In response, we propose to expand the use of enhanced infringement damages to disincentivize infringement and restore balance at the license negotiating table.

Former Justice Anthony Kennedy's concurring opinion in *eBay*, emphasizing that nonpracticing entities may abuse patent litigation to "hold up" users for windfall payouts, has been applied expansively, encompassing operating entities in a wide range of circumstances.

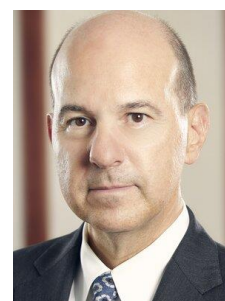
It has become much more challenging for these patent owners to secure an injunction against infringers. Post-*eBay*, courts have generally assumed that these patent owners are made whole by monetary damages appropriately calculated based on the "reasonable royalty" standard.

But this assumption is wrong.

Removing the injunction backstop has created an environment that encourages so-called efficient infringement, promotes stalling tactics by users and increases litigation.

With injunctions effectively out of the picture, a well resourced infringer will usually find that agreeing to pay a license fee for use of a patented technology is economically irrational. The infringer is often better off using — and profiting from — the technology and effectively negotiating the royalty rate through the litigation and settlement process, including an offensive use of inter partes review petitions at the Patent Trial and Appeal Board, with a bonus possibility that the patent may be invalidated altogether.

In the words of Boris Tekler, the former head of patent licensing at Apple: "efficient infringement, where the benefits outweigh the legal costs of defending against a suit, could almost be viewed as a



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'fiduciary responsibility,' at least for cash-rich firms that can afford to litigate without end." [2]

Numerous cases have illustrated how the absence of injunctive relief leads infringers to engage in stalling tactics that require patent owners to undertake costly and protracted litigation against some of the world's largest corporations, all in an effort to secure a royalty through settlement or adjudication.

Some notable recent litigations of this type include:

- Core Wireless Licensing SARL v. LG Electronics Inc. (2014-2018);
- Qualcomm Inc. v. Apple Inc. (2017-2019);
- Unwired Planet International Ltd. v. Huawei Technologies (UK) Co. Ltd. (2014-2020); and
- Optis Wireless Technology LLC v. Apple (ongoing since 2017).

Each example is a case that took place over many years, providing a sense of the delay involved when pursuing a royalty through infringement proceedings.

Moreover, even in circumstances where a license is negotiated proactively before infringement, the negotiation is conducted in the shadow of potential infringement remedies, and a no-injunction regime with a low likelihood of enhanced damages is prone to distort even negotiated royalty rates to the advantage of licensees. In a downward valuation spiral, those negotiated rates are then used as "comparable" license rates when courts determine reasonable royalty damages in future infringement litigation.

We therefore propose amending the patent statute to provide that in any patent infringement litigation in which validity is upheld, infringement is found and an injunction remedy is not granted, a court must apply a multiplier — up to the existing statutory maximum of treble damages — to enhance the monetary damages owed to the patentee under the reasonable royalty standard.

The patent statute already provides courts with discretion to enhance damages; however, this is generally reserved for the most egregious circumstances and does not correct the deterrence shortfall in no-injunction litigation environments. Our proposed modification will do so by making even a well-resourced infringer worse off by electing to infringe — and invite litigation — rather than negotiating a license fee up-front.

We recognize that excessively high multipliers could invite opportunistic infringement litigation of the sort that led to the eBay decision in the first place. However, courts can mitigate this effect by calibrating the multiplier appropriately.

Under current case law, courts already set enhanced damages based on the Read factors, a set of nine factors laid by the Federal Circuit in its 1992 decision in *Read Corp. v. Portec Inc.*, that reflect the egregiousness of the defendant's conduct. Under our proposal, courts would continue to use these factors to determine the appropriate damages multiplier based on the facts in any particular litigation.

Some of the most relevant Read factors in this context include: "whether the infringer deliberately copied the ideas or design of another; whether the infringer, when he knew of the other's patent protection, investigated the scope of the patent and formed a good-faith belief that it was invalid or that it was not infringed; ... defendant's size and financial condition; [and] closeness of the case." [3]

In a typical "efficient infringement" scenario, at least two of these factors would favor selecting a high

multiplier for purposes of enhanced damages, particularly when the infringer is well-resourced financially and deliberately copies the patentee's patented technology. The court could adjust the multiplier upward or downward depending on the extent to which the facts indicate whether the infringer had investigated the scope of the patent and formed a good-faith belief that the patent was invalid.

Our proposal may seem unorthodox, but it is consistent with the original purpose of treble damages in U.S. patent law — namely, to compensate patentees who were unable to petition for injunctive relief.[4]

Post-eBay case law has placed increasingly large portions of the patentee population in the same position. But, the doctrine of treble damages, however, long ago lost its teeth.

Originally introduced as an amendment in 1793 requiring that infringers pay at least triple damages, the doctrine over the years has been weakened to be discretionary instead of mandatory, and the triple multiplier was set as a maximum value instead of a minimum.[5]

In no-injunction litigation environments, treble damages reserved for only the most egregious circumstances are no longer a reliable deterrent.

Our proposal would restore balance to the currently uneven playing field that systematically favors infringers over patent owners and, as a result, places at risk the viability of the patent system as a mechanism to finance and monetize innovation.

Enabling patentees to credibly threaten infringers with the prospect of enhanced damages in lieu of injunctive relief would discourage well-resourced users from infringing by increasing the user's anticipated "downside" losses in the event that the patentee prevails in an infringement litigation.

This would correct the perverse incentives to engage in opportunistic infringement in a legal environment where patent owners cannot credibly threaten to deny access to their patented technology.

The prospect of enhanced damages — and, in particular, courts' ability to adjust the multiplier upward in response to infringer opportunism — would also unwind the distortionary effects that the current "almost no" injunction patent regime exerts in the patent licensing market. Negotiated royalty rates would more closely track a patent's economic value since those rates would no longer reflect the artificially depressed levels that can arise under the threat of protracted litigation against well-resourced infringers.

The eBay decision may have targeted a specific type of opportunistic litigation, but its effects have reverberated across the intellectual property ecosystem, converting patents in many industries from a property right priced by the market to a quasi-compulsory license priced in court.

Absent legislative intervention to address the eBay effect, which Congress has already undertaken in trademark law through a 2020 amendment restoring the presumption of irreparable harm upon a finding of infringement, we have proposed a simple remedy.

If patentees have no realistic expectation of securing injunctive relief, even after having incurred the millions of dollars and years of litigation involved in defending validity and demonstrating infringement, then the infringer must pay enhanced damages to mitigate the deterrence and compensation shortfalls

that have arisen under the current patent regime.

We encourage Congress to consider making our proposed adjustment to the patent statute. In 1793, Congress recognized the necessity for mandating enhanced damages for patent owners when injunctive relief is unavailable; today that same rationale applies once again.

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[1] 547 U.S. 388.

[2] The trouble with patent-troll hunting, *ECONOMIST*, Dec. 14, 2019 (citing Boris Teksler, described as "Apple's former patent chief").

[3] *Read Corp. v. Portec, Inc.*, 970 F.2d 816, 826-27 (Fed. Cir. 1992). Internal citations are omitted from the quotation above.

[4] See James Ryan, *A Short History of Patent Remedies*, 6 *CYBARIS* 150 (2015).

[5] *Id.*