

## PHOENIX ISSUE V.

- **IS THE CURRENT LAW OF DAMAGES AND INJUNCTIONS ADEQUATE IN PROTECTING RIGHTS OF PATENT HOLDERS?**
  - **WHAT IS THE IMPACT OF INVESTING IN AND PROMOTING INNOVATION?**
- **HOW DOES THE HANDLING OF DAMAGE AND INJUNCTION ISSUES IN THE US COMPARE TO COUNTRIES IN EUROPE AND ASIA?**

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### Introduction

Both in the UK and in the US, a major issue for those who support innovation especially in the life sciences is litigation cost and uncertainty. For a recent example involving a start-up enterprise created by an individual inventor, see the Bunch O' Balloons litigation (*Tinnus Enterprises and Zuru Limited v Telebrands*; Eastern District of Texas, 2019) where following an unfavourable decision in the PTAB and some \$ millions in litigation costs a favourable decision and a jury verdict for wilful infringement in the sum of some \$10 million was obtained. The inventor Josh Malone has become a strident campaigner in favour of simpler and more certain patent enforcement.

Provisions regarding injunctions are broadly similar as between the US and the UK, unsurprisingly since injunctions are an equitable remedy and share a common legal origin. Provisions regarding damages or in the UK an account of profits are also broadly similar to those in the US.

A major difference between both opposition proceedings before the EPO and infringement proceedings in the UK and those before the US courts and before the PTAB under the AIA is the freedom to amend the claims in issue and relative speed and informality of the amendment procedure. A comment submitted to the UK Supreme Court in the recent *Warner-Lambert* case was that ever since the Statute of Monopolies, 1623 public policy has been to refuse those grants that were impermissible but to uphold those grants that were valid. Even if the claims as granted were unenforceable, if the disclosure of the specification includes innovative, valid and potentially infringed subject-matter, public policy should be to allow amendment so that the patentee can obtain the benefit of what has been disclosed. Although there have been calls for greater reliability in pre-grant examination before the USPTO, it is a matter of common experience that the resources in play during infringement or revocation proceedings before the courts, and commonly before the PTAB, are greater by at least one order of magnitude. It is inevitable that additional grounds of objection will be found, and if the patentee is not left free to address these by claim amendment injustice is inevitable. From the inception of the European patent system a policy was adopted that claims could be freely amended during opposition, and the policy in the UK is broadly similar. More recently the EPO has adopted a procedure for claim limitation as of right so that a patentee can amend the claims relatively quickly before initiating infringement proceedings where it appears prudent to do so. Because of this flexibility, a patentee is inherently likely to be able to start infringement proceedings in a stronger position in Europe than in the US.

A further major difference between UK proceedings and those in the US is the award of costs, virtually as of right, to the successful party. Such costs are assessed or "taxed" by the courts, but are typically 60-70% of the actual costs incurred by the relevant party and amounts can be considerable. If Josh Malone had been litigating his patent before the UK courts, his

overall costs would have been somewhat less but he would have had the expectation of recovering an significant portion of them.

### Post-trial injunctions

Concern in the US followed the Supreme Court opinion in *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006) in which the following opinion was handed down by Justice Thomas:

“That test requires a plaintiff to demonstrate: (1) that it has suffered an irreparable injury; (2) that remedies available at law 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. The decision to grant or deny such relief is an act of equitable discretion by the district court, reviewable on appeal for abuse of discretion. (...) Neither the District Court nor the Court of Appeals below fairly applied these principles.

Although the District Court recited the traditional four-factor test, 275 F.Supp.2d, at 711, it appeared to adopt certain expansive principles suggesting that injunctive relief could not issue in a broad swath of cases. Most notably, it concluded that a “plaintiff’s willingness to license its patents” and “its lack of commercial activity in practicing the patents” would be sufficient to establish that the patent holder would not suffer irreparable harm if an injunction did not issue. *Id.*, at 712. But traditional equitable principles do not permit such broad classifications. 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. Such patent holders may be able to satisfy the traditional four-factor test, and we see no basis for categorically denying them the opportunity to do so.”

Nevertheless, on July 30, 2007, the District Court once again issued an order denying the injunction, ruling that, based on MercExchange’s history of licensing or attempting to license the patent, monetary damages of \$30 million was a sufficient remedy, following which the parties agreed a settlement.

Enforcement in the UK is governed by the INTELLECTUAL PROPERTY (ENFORCEMENT, ETC.) REGULATIONS 2006 (SI 2006/1028) implementing European Directive No. 2004/48/EC which provide:

—(1) Where in an action for infringement of an intellectual property right the defendant knew, or had reasonable grounds to know, that he engaged in infringing activity, the damages awarded to the claimant shall be appropriate to the actual prejudice he suffered as a result of the infringement.

(2) When awarding such damages—

(a) all appropriate aspects shall be taken into account, including in particular—

(i) the negative economic consequences, including any **lost profits**, which the claimant has suffered, and **any unfair profits made by the defendant**; and

(ii) elements other than economic factors, including the **moral prejudice** caused to the claimant by the infringement; or

(b) where appropriate, they may be awarded on the basis of the **royalties** or fees which would have been due had the defendant obtained a licence.

Under the pre-existing legislation in the UK, the relief provided by Section 61 of the Patents Act, 1977 is as follows:

61.—(1) Subject to the following provisions of this Part of this Act, civil proceedings may be brought in the court by the proprietor of a patent in respect of any act alleged to infringe the patent and (without prejudice to any other jurisdiction of the court) in those proceedings a claim may be made—

- (a) for an **injunction or interdict** restraining the defendant or defender from any apprehended act of infringement;
- (b) for an order for him to **deliver up or destroy any patented product** in relation to which the patent is infringed or any article in which that product is inextricably comprised;
- (c) for **damages** in respect of the infringement;
- (d) for an **account of the profits derived** by him from the infringement;
- (e) for a declaration or declarator that the patent is valid and has been infringed by him.

(2) The court shall not, in respect of the same infringement, both award the proprietor of a patent damages and order that he shall be given an account of the profits.

Although grant of an injunction is a discretionary remedy, it was held in *Biogen v Medeva* [1993] R.P.C. 475 that it would be rare to deprive a successful patentee of the usual remedy of an injunction after full trial. However, in *Roussel-Uclaf v Searle (No. 1)* [1977] F.S.R. 125, it was indicated, *obiter*, that the court might refuse an injunction when this would have the effect of preventing a life-saving drug, different from that marketed by the patentee, from being made available to the public, see also *Chiron v Organon Teknika (No.10)* [1995] F.S.R. 325 where an exception to the injunction for a particular diagnostic device, for which the claimants had no corresponding device, was allowed. In *Edwards Lifesciences LLC v Boston Scientific* [2018] EWHC 1256 (Pat) the Court stayed the grant of a final injunction by 12 months in order to permit clinicians to be re-trained on the use of a non-infringing device (at the time, clinicians were only familiar in the use of the infringing device).

Arguments which have successfully been used to show that the claimant's pre-trial loss will be unquantifiable are where:

- the defendant may establish a bridgehead or springboard position in the market (see *American Cyanamid v Ethicon (No. 1)* [1975] R.P.C. 513, HL);
- there will be an adverse effect on the claimant's research programme (see *Netlon v Bridport-Gundry* [1979] F.S.R. 530, CA); and
- the claimant is in the process of establishing a market for the patented article (see *Netlon v Bridport-Gundry* [1979] F.S.R. 530, CA).

In *Coflexip v Stolt Comex* [2001] R.P.C. 9, CA, the Court of Appeal confirmed that the traditional general form (prohibiting further acts of "infringement") should be used unless reasons were given demonstrating why that was not appropriate. In *Grimme v Scott* [2010] EWCA Civ 1110, the Court of Appeal expressed the preliminary view that an injunction to restrain contributory infringement, where what the defendant sold did not itself infringe and had a non-infringing use, should be expressed in general terms in the same manner as one to restrain direct infringement.

It is possible for an injunction to have extra-territorial effect by restraining acts carried out abroad which are likely to lead to infringing acts within the United Kingdom, see e.g. the passing-off case of *Alfred Dunhill v Sunoptic* [1979] F.S.R. 337. In the patent case of *Kirin-Amgen v Transkaryotic Therapies (No.2)* [2002] R.P.C. 3, however, the court refused relief extending abroad holding that, in the absence of any special facts, it went beyond the ambit of the patent which related only to activities in the United Kingdom

An injunction may be granted once the patent has expired. The ECJ has held this to be a proper exercise of the powers of the court and to be non-discriminatory and acceptable within the terms of what is now art.34 TFEU (*Generics v Smith Kline & French* (C-316/95) [1997] R.P.C. 801). In *Dyson v Hoover (No.2)* [2001] R.P.C. 27 the court granted a post-patent expiry injunction, noting that s.61(1) does not preclude other relief for infringement and that, under the Senior Courts Act 1981 (c.54) s.37, an injunction can be granted where it appears “just and convenient” to do so. Although springboard damages for post-expiry acts had been found allowable in *Gerber Garment v Lectra Systems* [1997] R.P.C. 443, CA, such damages were seen as notoriously difficult to assess and a post-expiry injunction could be granted to ameliorate that difficulty. Since an award of damages has to be limited to damages which were “foreseeable, caused by the wrong and not excluded by public policy”, the court awarded a post expiry injunction for the period spent developing the infringing device, whilst the patent had remained valid (such development itself being an infringing act). In *Mayne Pharma v Pharmacia Italia* [2005] EWCA Civ 294, however, the Court of Appeal, when making an agreed order that the patentees be at liberty to apply for a post-expiry injunction, observed that whether the court had jurisdiction to grant such an order was a matter that one day would “have to be considered very carefully”.

In *Stretchline v H&M* [2016] EWHC 162 (Pat), the court refused to grant a final injunction, deeming it unnecessary where future infringement was covered by contractual terms in a settlement agreement. However, in *Unwired Planet v Huawei Technologies Co Ltd* [2015] EWHC 3366 (Pat) it was provisionally held that since Unwired Planet had established that Huawei had infringed two valid EP (UK) patents, since Huawei had not been prepared to take a licence on the terms the court had found to be FRAND, and since Un-wired Planet were not in breach of competition law, a final injunction to restrain infringement of these two patents by Huawei should be granted. However, the injunction should be considered at a hearing in a few weeks’ time once Unwired Planet had drawn up a full set of the terms of the worldwide licence incorporating the decisions made in the present judgment. Any damages awarded would be at the same rate as the appropriate FRAND rate. At that further hearing [2017] EWHC 1304 (Pat) a FRAND injunction was granted, which would be discharged if the defendant entered into a settled FRAND licence annexed to the decision, the injunction being stayed pending appeal for which permission was granted.

### **Injunctions pre-trial and pending appeal**

In England and Wales, whether or not to grant such an injunction was for over 20 years decided on the principles established in the patent infringement case of *American Cyanamid v Ethicon (No. 1)* [1975] R.P.C. 513, HL and then applied generally to cases of all kinds, including those outside the field of intellectual property. These principles require, first, that the claimant show that there is “a serious issue to be tried”. The court then considers where the “balance of convenience” lies. If there is no such imbalance, then preservation of the status quo becomes the deciding factor. However, the current practice is for the Patents Court to fix an early trial thereby circumventing any need to consider the “balance of convenience”. Accordingly, a claimant seeking an interim injunction from the Patents Court is advised to make inquiries and investigations as to the estimated length of trial and possible trial dates, see the Patents Court Guide. The former tactic of seeking an interim injunction to put pressure on a defendant to cease its activities or enter into a settlement, without any real intention to take the case to full trial, is likely to backfire. The court is likely to impose an early trial date which will put the claimant under undesired pressure to have its case ready for trial in time, even if it does wish to proceed to trial. That procedure avoids the difficulties that can arise by grant of an interim injunction subject to a cross-undertaking as to damages.

In the period between first instance judgment and appeal, the decision whether or not to grant an injunction somewhat follows those for a first instance interim injunction, see *American*

*Cyanamid and Unilever v Chefaro* [1994] R.P.C. 567. In *Novartis v Hospira* [2013] EWCA Civ 583, the Court of Appeal confirmed that, in granting an interim injunction pending appeal, where the patentee has lost at first instance, the court must be satisfied that the appeal has a real prospect of success, ignoring how good that prospect is, whether there was a pre-trial injunction and insuring that the Court of Appeal is able to do justice between the parties. In *Warner-Lambert v Sandoz* [2015] EWHC 3153 (Pat), the court granted an application to continue an interim injunction where doing so would maintain the status quo (i.e. it would keep a full label generic product off the market pending resolution of the underlying claim).

## **Damages**

For many years, there was little authority on the assessment of damages for patent infringement, other than damages should be compensatory and not punitive, see *Catnic v Hill & Smith (No.2)* [1983] F.S.R. 512. In that case, it was held that damages must result from the infringing acts and not merely be caused by them so that so-called “parasitic damages” should not be allowed. In *Gerber Garment v Lectra Systems* [1997] R.P.C. 443, CA, however, it was held that such compensatory damages should be based on any loss which was foreseeable as likely to arise from the infringing acts, including damages for “secondary loss”, a term which the court found preferable to “parasitic damages”. The Court of Appeal stressed that a successful claimant can only obtain damages where it has suffered loss which was foreseeable, caused by the tort and not excluded from recovery by public or social policy. This includes so called “bridgehead” losses caused by the infringer establishing a commercial reputation before the expiry of the patent and the loss of sales of unpatented articles, associated equipment and maintenance contracts which resulted as a foreseeable consequence of the infringing acts. In assessing compensation appropriate to the claimant, the court is required to estimate what the chances were that particular events would have occurred if there had been no infringement and reflect those chances in the amount of damages awarded. If infringement takes place during a period when the patent is subject to “licences of right”, the defendant is only entitled to benefit from this if it had shown itself willing to avail itself of such a licence.

In a case where the proprietor has shown willingness to license others to use its invention, the royalty then being applied is likely to provide the measure of damages for all the infringing acts (*General Tire v Firestone* [1976] R.P.C. 197, HL).

Interest on damages (on a simple interest basis) is usually awarded in respect of the whole or part of the period between each act of infringement and the date of judgment on the assessment (though strictly this is at the discretion of the court) but such a claim must be made (Senior Courts Act 1981 (c.54) s.35A as inserted by s.15 of, and Sch.1 to, the Administration of Justice Act 1982 (c.53) s.15 and Sch.1, see *Hunt v Douglas* [1990] 1 A.C. 398, HL). After assessment in either the High Court or the Intellectual Property Enterprise Court, interest is also payable (as a judgment debt at a rate fixed under the CPR) on a daily basis for the period between the date of the order on assessment and the date of payment.

## **Account of profits**

Election of an account has been less usual because of the difficulty and uncertainty in the assessment.

For a recent example, see *OOO Abbott v Design and Display* [2016] EWCA Civ 95. The proceedings concerned a slotted display panel having a snap-in protective and deformable insert, the shape and structure of the insert being the characterising features of the claim. It was held [12] that the judgment of Birss J on liability at [2013] EWPC 27 was concerned with whether the claimed subject-matter was obvious over the prior art, and not with the different issue of identification of the inventive concept for the purposes of assessing damages or an account of

profits. If the inventive concept was the inserts, then sale of the panels was sale of “conveyed goods” and it was incorrect to conclude that because the sales went together, the sale of inserts caused the sale of the panels and that the whole of the profit earned on the composite item was derived from the invention [36]. The judge should have apportioned the overall profit, see the extensive review of *Meters Ltd v Metropolitan Gas Meters Ltd* (1910) 27 R.P.C. 721; (1911) 28 R.P.C. 157 where the infringing mechanism was the very essence of the meter, *Celanese International Corp v BP Chemicals Ltd* [1999] R.P.C. 203 at [43], [47] and [51], *Gerber Garment Technology Inc v Lectra Systems Ltd* [1997] R.P.C. 443 (on causation), *Environment Agency v Empress Car Co (Abertillery) Ltd* [1999] 2 A.C. 22 at [29] (also on causation), *Dart Industries Inc v Decor Corp Pty Ltd* [1994] F.S.R. 567, *Hollister Inc v Medik Ostomy Supplies Ltd* [2012] EWCA Civ 1419 and *Colbeam Palmer Ltd v Stock Affiliates Pty Ltd* [1972] R.P.C. at 315. General overheads were only deductible, following *Woolley v UP Global Sourcing* [2014] EWHC 493 in two circumstances: (a) if an overhead was increased by the acts of infringement (i.e. the increase would not have occurred but for the acts of infringement); and (b) if the defendant was running to maximum capacity such that the infringing business displaced an alternative business which otherwise would have been conducted. Allowing the appeal, it was held that it was not possible to assess the profits to which the patentee was entitled on the basis of the facts already found, and the case was remitted to IPEC.

*OOO Abbott v Design and Display* returned to IPEC [2017] EWHC 932 (IPEC) for a decision against the first defendant as to (a) What proportion of sales of slatted panel sold together with infringing inserts should be included within the Appellant's account of profits and (b) What deductions (if any) for general overheads may the Appellant make in its account of profits. In the outcome, it was found that 10% of the defendant's customers wanted the infringing panel and no substitute, and that the defendant should pay the whole of the profit made on the relevant inserts plus 10% of the profit made on the panel, general overheads, rent and delivery charges being deductible from its profits on the infringing business, but not payments to directors.