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PERSPECTIVE

Enhanced patent damages arguments at high court

By Blaine H. Evanson and
Taylor W. King

The U.S. Supreme Court will hear argument on Feb. 23 in two appeals from the U.S. Court of Appeals for the Federal Circuit (*Halo Electronics Inc. v. Pulse Electronics Inc.* and *Stryker Corp. v. Zimmer Inc.*) regarding the test for enhancing patent infringement damages. The court's decision could have a significant impact on not only the availability of enhanced damages but also patentees' (especially non-practicing entities') pre-suit notification strategy and ability to extract settlements from corporations.

The petitioners in *Halo* and *Stryker* sued their respective defendants for patent infringement and sought enhanced damages for what they alleged was willful infringement. Juries in both cases found for plaintiffs and determined the defendants' infringement was willful (in *Stryker* the district court enhanced damages; in *Halo* the court did not). But on appeal, the Federal Circuit held that *Halo* and *Stryker* were not entitled to enhanced damages because the defendants had raised objectively reasonable defenses of non-infringement and invalidity and therefore did not willfully infringe as a matter of law.

Petitioners challenge the test the Federal Circuit has developed to guide district courts' discretion in awarding enhanced damages for patent infringement. Section 284 of the Patent Act states only that "the court may increase the damages up to three times the amount found or assessed." But the Federal Circuit has always held that damages may not be enhanced unless infringement is willful. And the en banc Federal Circuit in *In re Seagate Technology LLC* held that in order to establish willful infringement a patentee must show "the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent" and must demonstrate the objective risk "was either known

or so obvious that it should have been known to the accused infringer." 497 F.3d 1360, 1371 (Fed. Cir. 2007). As a result, enhanced damages for patent infringement are unavailable if a defendant presents an objectively reasonable defense of non-infringement or invalidity, even if that defense proves unsuccessful at trial.

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Circuit's test is not grounded in the statute, and they point to the Supreme Court's rejection of a similar test in *Octane Fitness v. Icon Health and Fitness*, 134 S. Ct. 1749, 1756 (2014). Section 285 of the Patent Act states that courts "in exceptional cases may award reasonable attorney fees to the prevailing party." The Federal Circuit had created a test limiting "exceptional" cases to only those cases where there was "some material inappropriate conduct" or the litigation was "brought in subjective bad faith" and "objectively baseless." *Brooks Furniture Manufacturing Inc. v. Dutailier International Inc.*, 393 F.3d 1378, 1381 (Fed. Cir. 2005). But in 2014, the Supreme Court rejected the *Brooks Furniture* test as "unduly rigid" and "impermissibly encumber[ing] the statutory grant of discretion to district courts." The Supreme Court in *Octane Fitness* concluded that the standard for awarding attorney fees "begins and ends with the text," which in the case of Section 285 "is patently clear."

Petitioners argue the Federal Circuit, as it had with Section 285, has unduly restricted the availability of enhanced damages based on a test untethered to the statute's text. Accordingly, petitioners argue, since

the court held in *Octane Fitness* that a "rigid two-prong test" for awarding attorney fees under Section 285 was improper, then the court should reject a similar test in the "broader and more flexible enhanced damages context." Petitioners ask the Supreme Court to leave the enhancement of patent infringement damages to the discretion of district courts and to subject these decisions to more deferential abuse of discretion review.

Petitioners' argument has superficial appeal. But one reason the Supreme Court may rule differently in *Halo* and *Stryker* than it did in *Octane Fitness* is that enhanced damages under Section 284 are punitive and therefore carry additional procedural — even constitutional — protections that are not required of awards for attorney fees.

Since 1854, the Supreme Court has emphasized that enhanced damages in patent cases should be awarded only for willful infringement. *E.g.*, *Seymour v. McCormick*, 57 U.S. 480, 488-89 (1854). Congress left this understanding of the law in place in 1952 when it passed Section 284, and subsequent case law and legislative history continue to support this prerequisite to enhanced damages.

The court has also made clear that punitive awards based on willful conduct require a showing that the conduct was objectively unlawful. *E.g.*, *Safeco Ins. Co. of Am. v. Burr*, 551 U.S. 47 (2007); *Smith v. Wade*, 461 U.S. 30 (1983). The court has rejected the argument "that evidence of subjective bad faith can support a willfulness finding even when the company's reading of the statute is objectively reasonable." *Safeco*, 551 U.S. at 70 n.20. Rather, where there are grounds "for more than one reasonable interpretation" of the law, "it would defy history and current thinking to treat a defendant who merely adopts one such interpretation as a knowing or reckless violator." *Id.* Indeed, where there is no objective basis for concluding what types of conduct warrant enhanced damages,

a civil defendant may lack the "fair notice" that due process demands before subjecting a defendant to punitive penalties. In short, respondents and their amici argue, infringement cannot be deemed willful where the defendant's judgment on infringement or invalidity, "albeit erroneous, was not objectively unreasonable." *Id.* at 69.

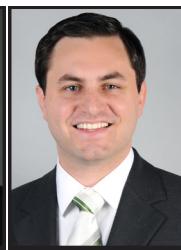
The court's decision could have a significant impact on the way patent claims are litigated. One of the concerns underlying the Federal Circuit's *Seagate* test was patentees' frequent practice of sending demand letters to practicing companies alleging infringement in vague terms. These demand letters put the companies on notice of the asserted patents and tended to increase the settlement leverage for the patentee because the letters could be used as evidence of willful infringement (and therefore enhanced damages) at trial. The Federal Circuit's treatment of enhanced damages has reined in this practice to some extent, and the many technology companies and members of Congress supporting respondents as amici hope the Supreme Court does not allow this practice to return.

Blaine H. Evanson is a partner in the Los Angeles office of Gibson, Dunn & Crutcher LLP, and practices in the Appellate and Constitutional Law and Intellectual Property practice groups.

Taylor W. King is a litigation associate in the Orange County office of Gibson, Dunn & Crutcher LLP.



BLAINE EVANSON
Gibson, Dunn & Crutcher



TAYLOR KING
Gibson, Dunn & Crutcher