
Halo and Stryker – An Imminent Change to the Law on Increased Patent Damages?

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Patent reform issues are back in action again at the U.S. Supreme Court. Last October, the Supreme Court agreed to hear two cases challenging the Federal Circuit's standard for increased damages under 35 U.S.C. §284. The high court consolidated the petitions in *Halo Electronics, Inc. v. Pulse Electronics, Inc.* and *Stryker Corp. v. Zimmer, Inc.*, and agreed to consider the Federal Circuit's two-part test for enhancing patent infringement damages in light of the Court's decision last term in *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749 (2014) rejecting a purportedly similar framework for imposing attorney fees. These cases have drawn significant attention from corporations, bar associations, industry groups, and academics, and may shed some light on how far the Court is willing to go in reshaping the current state of the law.

INCREASED DAMAGES AND THE PATENT STATUTE

Section 284 of the Patent Statute provides that a court may increase the damages up to three times the amount found or assessed. Importantly, Section 284 does not include language limiting increased damages to situations involving an exceptional case, egregious or reckless conduct, or bad faith. Nor does Section 284 explicitly limit increased damages to situations involving willful infringement. Yet the Federal Circuit, as well as many decisions dating back to the 19th century, has consistently held that an award of increased damages requires a finding of willful, wanton or bad faith infringement.

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Petitioners Halo and Stryker, as well as many amici, now argue that the test outlined in *In re Seagate Technology*, 497 F.3d 1360 (Fed. Cir. 2007) is too rigid and inflexible, making it nearly impossible to obtain increased damages even in situations where bad faith infringement or blatant copying has occurred. Further, petitioners argue that a finding of willful infringement or other egregious conduct is not required to increase damages when looking at the plain language of Section 284. Not surprisingly, respondents Pulse Electronics and Zimmer, and their amici, including many prominent high technology and internet companies, believe that the *Seagate* test is appropriate and working well, and the Court should refrain from altering course.

ABUSIVE LITIGATION TACTICS LEVERAGING WILLFUL INFRINGEMENT

Prior to *Seagate*, as Chief Patent Counsel at Microsoft Corp., I witnessed firsthand the spurious willful infringement assertions that all too often provided plaintiffs unfair leverage with a threat of triple damages. The Federal Circuit decisions prior to *Seagate* regrettably imposed an affirmative duty of due

care on a defendant to obtain an exculpatory opinion of counsel after learning about a patent. Consequently, in the decade or more leading up to *Seagate*, willful infringement allegations became routine in almost every case, and caused massive problems with attorney-client privilege issues, not to mention wasteful and unnecessary discovery expense.

The attorney-client privilege waiver issues became extremely challenging and problematic for defendants. Absent production of an opinion, oftentimes to avoid risking expansive waiver of

privilege which could extend to trial counsel strategy, an adverse inference was taken that the opinion was negative, thus supporting a plaintiff's willful infringement charge. Even with a favorable attorney opinion, this situation put defendants in extremely compromising positions, and aggressive patent plaintiffs did not hesitate to utilize this leverage to pressure defendants into oversized settlements.

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LIFE AFTER SEAGATE

The *Seagate* decision immediately changed this dynamic by significantly raising the bar on the types of cases warranting increased damages based on allegations of willful infringement. In *Seagate*, the Federal Circuit articulated a two-part test for awarding increased damages for willful infringement that requires a plaintiff to “show by clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent,” and further “demonstrate that this objectively defined risk...was either known or so obvious that it should have been known to the accused infringer.”

Since the *Seagate* decision, we have seen a dramatic reduction of both willful infringement allegations at the outset, and the ultimate award of increased damages. No longer are companies required to spend thousands or sometimes millions of dollars annually for attorney opinions every time a patent is somehow made known or discovered. Now companies of all sizes need not fear a possible hit of triple damages, and feel less constrained in reviewing competitor patents in efforts to design-around and avoid infringement, which can lead to further innovation. Additionally, in 2011, Congress addressed the attorney-client privilege waiver issue by enacting 35 U.S.C. §298, which is intended to protect attorney-client privilege and to reduce pressure on accused infringers to obtain opinions of counsel for litigation purposes.

In spite of the success in correcting one of the most problematic areas of patent law in recent times, the Supreme Court is poised to reevaluate and possibly dramatically alter the law on willful infringement and increased damages.

POSSIBLE OUTCOMES AT THE SUPREME COURT

One possible outcome is a return to empowering district courts with more discretion for awarding increased damages under a “totality of the circumstances” approach, with an emphasis on the subjective state of mind of the defendant. Instances of egregious conduct or bad faith infringement such as blatant copying would be particularly subject to an award of increased damages, even if a plausible trial defense were put forward. This approach would essentially eliminate the objective prong of the *Seagate* test. Under a “totality of the circumstances” test, a finding of willful infringement may not even be a prerequisite to increased damages. For example, a defendant’s litigation misconduct that causes unnecessary expense or injury to a plaintiff could serve as a basis for increased damages.

The behavior of patent owners, as well as infringers, should be considered as circumstances relevant to the core public policies of the patent system, as urged in an amicus brief filed by Mentor Graphics, Microsoft, and SAP. Historically, nearly all of the emphasis regarding increased damages has been placed on the conduct of alleged infringers. In addition to actions or inactions of the infringer, this amicus group challenges the notion that willfulness must go to the jury and argues for the issue to be decided post-trial by the judge.

A change to the law on increased damages seems likely since the Supreme Court would not have granted *certiorari* simply to affirm *Seagate*.

Respondents and several other amici argue that an award of enhanced damages requires a threshold showing of willful infringement, and that the objective/subjective *Seagate* test for increased damages is appropriate. An overly lenient standard such as a return to a “totality of the circumstances” approach would invite many of the litigation abuses that the *Seagate* decision eliminated, cautions these stakeholders which include many high technology and internet companies. A large amicus group including Dell, Facebook, and HP strongly advocates the view

that an objectively reasonable trial defense should bar enhanced damages. And the amicus brief authored by Mark Lemley on behalf of internet companies including LinkedIn, Netflix, and Twitter argues that the Court should make the standard for awarding treble damages even more stringent by limiting willful infringement to circumstances where the infringer acts intentionally – aware of or willfully blind to the likelihood of infringement – at the time it adopted the technology.

A change to the law on increased damages seems likely since the Supreme Court would not have granted *certiorari* simply to affirm *Seagate*. How far the Court is willing to go is a wide-open question. At a minimum, I fully expect the Court to relax the current standard and grant more discretion to district courts. Whether anything will remain of the objective part of the *Seagate* test, or whether a finding of willful infringement will even remain a prerequisite, is anyone’s guess. While it is important to ensure that patent rights overall remain vibrant and continue to spur and reward innovation, the Court should take due care not to inadvertently open the doors to the widespread litigation abuse that existed prior to *Seagate*. •