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Justices will revisit 'willfulness' in patent cases

By Ben M. Davidson

On Monday, October 19, 2015, the U.S. Supreme Court decided to review the standard for determining willfulness and enhancing damages in patent cases. The court granted certiorari in a pair of cases in which enhanced damages were rejected by the U.S. Court of Appeals for the Federal Circuit, despite determinations by both the juries and district court judges that the defendants had willfully infringed the plaintiff's patents.

At issue is a 2007 decision from the Federal Circuit that made it harder to obtain enhanced damages for willful infringement. *In re Seagate Technology* held that enhanced damages under Section 284 of the Patent Act requires willfulness, and that willfulness requires proof by clear and convincing evidence that (1) there was an objectively high likelihood that the infringer's actions constituted infringement, and (2) this likelihood was either known or should have been obvious to the accused infringer. In practice, this objective test gave accused infringers a way to avoid enhanced damages as long as they could hire litigation counsel that articulated a reasonable defense during litigation — even if that defense was first developed long after the infringement took place.

The Federal Circuit applied its objective test to strike down enhanced damage awards in *Halo Electronics Inc. v. Pulse Electronics Inc.*, 14-1513, and *Stryker Corp. v. Zimmer Inc.*, 14-1520. The defendants in both cases were accused of conduct that made a compelling case for subjectively bad behavior. In *Halo*, a small family owned company had invented a transformer used in printed board circuits that resisted cracking. The invention was copied by Pulse Electronics, a much bigger competitor who refused to pay for a license. Halo could not afford to file a lawsuit, particularly during the terminal illness of the owner's wife, and the company argued that Pulse Electronics took advantage of its limited financial means to keep on infringing. At trial, Halo showed that Pulse Electronics did not even consult a patent lawyer



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to decide if it should take a license, relying instead on the opinion of one of its engineers who dismissed the patents as "invalid."

The facts on subjectively willful behavior were similarly compelling in *Stryker*. There, Stryker had invented a "pioneering" handheld surgical device to remove dead tissue during an operation — a fact that its competitor Zimmer was forced to admit in a deposition. Zimmer was losing market share, so it hired contract engineers to copy Stryker's patented invention. The jury found that Zimmer's infringement was willful and the district court awarded enhanced damages.

But the Federal Circuit reversed the finding of willfulness in both cases under its two-part objective test. In both *Halo* and *Stryker*, the Federal Circuit found that the defendants had offered objectively reasonable positions showing that the patented inventions were invalid or not infringed. Based on its focus on the reasonableness of the positions asserted during litigation, the Federal Circuit rejected the determinations of willfulness and enhanced damages.

The petitioners in *Halo* and *Stryker* criticized the Federal Circuit's willfulness test as another example of the court creating rigid tests out of whole cloth, with no support for them in the Patent Act. Just last year, they pointed out, the Supreme Court rejected another such test in *Octane Fitness v. ICON Health & Fitness*. There, the Federal Circuit had adopted a "rigid and mechanical" test for determining whether a prevailing party was entitled to attorney fees under Section 285 of the Patent Act, requiring prevailing parties to prove by clear and convincing evidence

that the litigation was objectively baseless as well as subjectively brought in bad faith. As the petitioners in *Halo* and *Stryker* pointed out, just like Section 285, Section 284 of the Patent Act says nothing about "objective" reasonableness of a party's litigation position. The statute just says that district courts "may increase ... damages up to three times the amount found or assessed."

Oliver Wendell Holmes once said that even a dog knows the difference between being stumbled over and being kicked. His point was that intentionally inflicted harm deserves different compensation from other harm. Companies that have seen their successful products copied by bigger competitors have long felt the same way. The prospect of treble damages was once a powerful tool for enforcing patents. It was also misused easily to extort settlements against companies that had reasonable defenses to infringement. Juries who decided that the defendants were "infringers" typically also found that the infringement was "willful," and awarding treble damages was often a foregone conclusion. If the Supreme Court reverses the Federal Circuit's *Seagate* standard, it will once again be easier to obtain treble damages for willful infringement, and more important for companies to assess the risks of using technology that they have been notified is patented by others before a lawsuit is filed. Preventative measures such as designing around the patented technology or obtaining independent opinions from patent counsel will once again be more important to protect against the risks of being surprised with large damage awards.

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