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# Supreme Court Report

Terry L. Clark and  
Brian R. Iverson

## Thoughts on Changing the Willful Patent Infringement Standard

As patent law reform continues in all three branches of the federal government, the US Supreme Court heard oral argument on February 23, 2016 in *Halo Electronics, Inc. v. Pulse Electronics, Inc.* and *Stryker Corporation v. Zimmer, Inc.* to consider the substantive standard for proving willful infringement under 35 U.S.C. § 284. The Court's decision stands to dramatically impact current fundamental patent best practices for avoiding patent infringement liability and, just as importantly, removing the threat of enhanced damages from patent infringement litigation. At one possible extreme, the Supreme Court could make it substantially easier for patent owners to obtain treble damages in infringement litigation, giving patent trolls greater incentive to litigate while making pirates from innocent infringers.

Under Section 284, after a defendant is found liable for patent infringement, "the court may increase the damages up to three times the amount found or assessed." Although the statute contains no standards or guidelines, the courts have long held that "willful infringement" is required for enhanced damages. The Federal Circuit's pendulum has swung broadly during the past 33 years as to precisely what conduct constitutes "willful infringement." The *In re Seagate* decision from 2007 sets forth the current iteration of the standard, holding that "to establish willful infringement, a patentee must

show by clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent." *In re Seagate Technology, LLC*, 497 F.3d 1360 (Fed. Cir. 2007). In *Seagate*, the Federal Circuit overruled its 1983 decision in *Underwater Devices Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380 (Fed. Cir. 1983), which required an accused infringer with actual notice of a patent to obtain competent legal advice from counsel before initiating any possible infringing activity to avoid a finding of willful infringement. For the new "objective" standard in *Seagate*, the Federal Circuit cited a Supreme Court opinion issued just two months earlier in *Safeco Ins. Co. of Am. v. Burr*, 551 U.S. 47 (2007), which defined "willful" activity under another federal statute.

In *Halo* and *Stryker*, the plaintiffs succeeded in proving infringement of medical device patents, but they were not awarded enhanced damages under Section 284. The High Court accepted the cases to consider whether *Seagate* is the appropriate standard for enhanced damages. Although there was no apparent agreement on how to articulate a new standard, during the oral argument the justices seemed almost certain to make some changes.

For example, Chief Justice Roberts noted that the statutory language is quite simple and contains no reference to willfulness, commenting that "to erect this fairly elaborate standard on the basis of that language I think is surprising." This comment harkened back to the US Supreme Court's landmark 2014 decisions in *Octane Fitness, LLC v. Icon Health & Fitness, Inc.*, 134 S. Ct. 1749 (2014)

which interpreted the "exceptional case" standard for awarding attorneys fees under Section 285. In *Octane*, the High Court unanimously held that "[t]he framework established by the Federal Circuit [for awarding attorneys' fees] is unduly rigid, and it impermissibly encumbers the statutory grant of discretion to the district courts." Given that the Federal Circuit's standard for willful infringement also is somewhat of a leap from the statutory text in Section 284, *Octane* may provide some insight into how the Court will decide the *Halo* and *Stryker* cases.

The Petitioners advocated broader discretion in the district courts, and argued that, unlike the current *Seagate* standard, an "objective" test must take into account the facts and circumstances actually known to the infringer at the time of the infringement to be consistent with well-established precedent in other areas, such as tort law. On behalf of the US Patent and Trademark Office, the Solicitor General's office appeared in support of the Petitioners. Although the Solicitor General's positions largely overlapped with the Petitioners, there were some nuanced differences. According to the Solicitor General, enhanced damages are appropriate in three circumstances: (1) subjective intent to infringe a valid patent; (2) objective recklessness based on placing the reasonable man in the shoes of the infringer, taking into account all facts and circumstances known to the infringer at the time of infringement; or (3) other egregious conduct not having to do with the infringement itself, such as corporate espionage or destruction of evidence. While offering some guidance in the event that the Court decides to change the standard, the Respondents' counsel essentially advocated that the Court not disturb the *Seagate* decision.

Most of the Court's questions focused not on whether a new standard is necessary, but instead on how to craft the new standard. Among

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other things, the justices looked for guidance on

- Whether willfulness should even be the baseline starting point for enhanced damages,
- What type of conduct should qualify for enhanced damages,
- Whether “clear and convincing evidence” is the appropriate burden of proof for enhanced damages,
- Whether litigation misconduct should factor into the enhanced damages analysis,
- How much discretion district courts should have in awarding enhanced damages, and
- Whether appellate courts should continue to review willfulness determinations *de novo* or should substitute the abuse of discretion standard.

Although it is impossible to predict how the Court will decide the *Halo* and *Stryker* cases, most observers agree that the Court is likely to change the standard to some degree. Justice Breyer, however, pressed all counsel on whether the Supreme Court should just leave this matter of statutory interpretation to the “expert court”—the Federal Circuit—given the complex policy questions presented. Justice Breyer was focused particularly on the impact that this case will have on the dynamic between patent trolls and small startup companies. Intellectual property practitioners use the term “troll” to describe non-practicing entities whose only business is to pursue infringement claims against a substantial number of defendants. Trolls oftentimes demand nuisance-value settlements from companies unwilling or unable to expend the resources to defend a questionable claim of infringement. Justice Breyer explained:

A company that’s a start-up, a small company, once it gets a letter, cannot afford to pay

10,000 to \$100,000 for a letter from Counsel, and may be willing to run its chances.

You start saying, little company, you must pay 10,000 to \$100,000 to get a letter, lest you get willful damages against you should your bet be wrong.

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We have all kinds of amicus briefs that say that’s the truth. And indeed, thousands and thousands of small businessmen are trying to break into business that they just can’t do without software. And when you have tens or hundreds of thousands of patents on software by other companies, that means we can’t break in.

Respondents’ counsel vividly captured the core policy concerns raised in Justice Breyer’s questions by repeatedly referencing the proverbial battle between pirates and trolls. If the Court sets too high a standard for willful infringement, it might encourage pirating—or deliberate and intentional copying of intellectual property. Pirates may feel emboldened if they can simply avoid enhanced damages by hiring good litigation counsel to develop reasonable *post hoc* defenses. Too low a standard, however, could raise the barriers for small startup innovators and feed the trolls. Indeed, if an alleged infringer has to do more work on the front end to protect against a finding of willful infringement, trolls might be able to extract larger nuisance settlements.

The *Halo* and *Stryker* cases were heard on just the second day of oral argument since Justice Scalia’s sudden passing. Most of the Supreme Court’s decisions in patent cases during the past two years have been unanimous, and there have not been any 5-4 decisions. In the unlikely event that

the Court’s current makeup leads to a 4-4 tie vote in *Halo* and *Stryker*, the Court could order reargument next term so that a newly appointed justice can participate in the review and break the tie. If it does not order reargument after a tie, however, the Supreme Court review would be an effective nullity and the *Seagate* standard for enhanced damages would remain controlling.

Assuming that the Court does not order reargument, it is likely to issue a decision in the *Halo* and *Stryker* cases in the next few months. Patent practitioners and frequent patent litigants should pay close attention to the decision, which could substantially change the landscape for enhanced damages in patent infringement suits.

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*Terry L. Clark is a partner at Bass, Berry & Sims PLC in Washington, DC. For over 30 years, he has counseled technology companies on intellectual property related matters including patent portfolio development, strategic planning, and IP protection through litigation and alternative dispute resolution before various national and international forums, including various district courts, the US Court of Appeals for the Federal Circuit, the US Patent and Trademark Office, including the Patent Trial and Appeals Board, and the US International Trade Commission.*

*Brian R. Iverson is an associate at Bass, Berry & Sims PLC in Washington, DC, where he serves as an assistant practice chair for the firm’s Intellectual Property Litigation practice group. Mr. Iverson represents both plaintiffs and defendants in patent infringement disputes through complex litigation and dispute resolution, appearing in federal district courts across the country and in the US Court of Appeals for the Federal Circuit. He was selected as a “Rising Star” in the 2014 and 2015 editions of Washington, DC Super Lawyers Magazine.*

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