

# Will the Supreme Court Revive the Willful Patent Infringement Doctrine?

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The U.S. Supreme Court appears poised to make it easier to prove willful patent infringement, but will that play into the hands of the patent trolls? That's one of the big questions patent lawyers have as they await the court's decisions in two big cases that were argued this term. The rulings are expected to be handed down in June.

The threat of a willful infringement finding traditionally was one of the sharpest arrows in a patent owner's quiver due to the corresponding risk of a treble damages award. In recent years, however, the U.S. Court of Appeals for the Federal Circuit has made proving willful infringement extraordinarily difficult. While some view the Federal Circuit's approach as an appropriate response to the abuses of so-called patent trolls, others believe it fosters disrespect for patent rights. The Supreme Court will soon decide whether the Federal Circuit went too far.

## Two Supreme Court Cases

In *Halo v. Pulse* and *Stryker v. Zimmer*, the Supreme Court is reviewing the Federal Circuit's standard for awarding enhanced damages in patent cases. Section 284 of the Patent Statute appears to grant trial judges broad discretion in this regard, stating only that "the court may increase the damages up to three times the amount found or assessed." Yet despite this broad statutory language, the Federal Circuit has interpreted this section as permitting an award of enhanced damages only upon clear and convincing proof of willful infringement under a stringent two-part test first articulated nearly ten years ago. That test, which requires a showing that a party acted despite an objectively high likelihood of infringement that was known or so obvious that it should have been known, is rarely satisfied in practice.

In both cases on review, the Federal Circuit ruled there was no basis for a willful infringement finding, affirming the lower court in *Halo* and reversing in *Stryker*. In each case, the appeals court held that the defendant's presentation of an objectively reasonable defense at trial precluded a finding of willfulness, regardless of whether the infringer had that defense in mind—or any defense for that matter—at the time of infringement. Whether an infringer should be permitted to escape a willful infringement finding through reliance on potentially later-developed trial defenses is likely to be a focus of the Supreme Court's decision.

## The Evolution of Willful Infringement

The Federal Circuit's treatment of willful infringement has undergone a remarkable transformation in the last 25 years. Shortly after the Federal Circuit was created in 1982, and apparently out of concern over widespread disregard for patent rights, the court ruled that a party with notice of another's patent had a "duty of due care" to avoid infringement, including an obligation to obtain competent legal advice. Unfortunately, this decision spawned what one Federal Circuit judge called "a cottage industry of window-dressing legal opinions" to rebut willful infringement claims, often costing tens of thousands of dollars in legal fees.

The negative impact of the due care standard was magnified in the 1990s with an explosion of patent assertions by companies whose business model was based on enforcing patents acquired from others to generate licensing revenue. These patent trolls were sometimes able to use the threat of a willful infringement finding under the due care standard

to force accused infringers to opt for the certainty of a license payment over the costs and risks of litigation, even for patent assertions of dubious merit.

By the mid-2000s, the Federal Circuit had apparently concluded that the due care standard had swung the pendulum too far in favor of patent owners. In its seminal *Seagate* decision, the Federal Circuit replaced the due care standard with a two-part test under which a patentee first must prove that the infringer acted despite an objectively high likelihood that its actions would infringe a valid patent, with no consideration of the infringer's actual state of mind at the time. If this threshold requirement is satisfied, the patentee must then demonstrate that the risk of infringement was either known or so obvious that it should have been known to the infringer. In subsequent decisions, the Federal Circuit explained that the first prong of the test cannot be satisfied if the infringer presents an objectively reasonable defense at trial, regardless of when the infringer became aware of that defense.

The *Seagate* standard has been controversial from its inception. Critics argue that the Federal Circuit's test makes it virtually impossible to prove willful infringement, since even the most unscrupulous copier of patented technology will typically be able to present some plausible defense at trial. Conversely, supporters argue that the strict standard is necessary to prevent patent trolls from using the threat of willful infringement to extort large settlement payments for weak patents, thereby stifling innovation.

### **The Court Is Poised to Do *Something*, but What?**

Even before *Halo* and *Stryker*, the *Seagate* standard appeared to be in jeopardy after the Supreme Court reversed the Federal Circuit's use of an almost identical standard for determining the availability of attorney fee awards in patent cases. In *Octane Fitness v. ICON* (2014) and *Highmark v. Allcare* (2014), the Supreme Court rejected what it characterized as a "rigid" approach to fee awards under Section 285 of the Patent Statute, finding the Federal Circuit's two-part test to be inconsistent with the broad statutory language. Instead, the court held that fee awards should be governed by a discretionary "totality of the circumstances" test. Given the close parallels between the issues in the two sets of cases, many expect the same approach for enhanced damages.

Nevertheless, judging by the oral argument in February in *Halo* and *Stryker*, at least some justices are struggling to reconcile the broad language of Section 284 with a desire to provide district courts with at least some guidance regarding willful infringement to help ensure an appropriate balance between the interests of deterring wanton infringement and avoiding disincentives to innovation. It therefore seems unlikely that the Supreme Court will simply adopt a totality of the circumstances test for awarding enhanced damages and leave the *Seagate* standard intact. In the words of one justice, the ability to avoid a willfulness finding under *Seagate* simply by presenting a reasonable defense at trial, even in the face of intentional infringement, "seems to stick in the craw a bit."

### **A Possible Hybrid Approach**

From a conceptual standpoint, it stands to reason that a doctrine aimed at determining whether an infringer's conduct was "willful" should focus on the circumstances existing at the time of the conduct. Accordingly, the court could address the various competing concerns with a modified standard that retains *Seagate*'s emphasis on whether the infringer acted in an objectively reasonable manner, but bases that determination on what the infringer actually knew at the time. Such a modified test would put some teeth back into the willful infringement doctrine, ensuring that enhanced damages will be available for both intentional and objectively reckless infringements, while eliminating the "get out of jail free" card of later-developed defenses. Further, there should be little risk of reviving the pre-*Seagate* "cottage industry" in legal opinions, particularly since Congress recently added Section 298 to the Patent Statute to prohibit using evidence of an infringer's failure to obtain legal advice as proof of willfulness. Indeed, in view of that new statutory

provision, willful infringement would remain difficult to prove in most cases, as the lack of reliance on a competent opinion of counsel was typically how willfulness was established before *Seagate*.

To be sure, proponents of the *Seagate* test may argue that even this hybrid standard risks chilling innovation by imposing on small businesses the need to expend valuable resources in response to patent assertions. Those concerns should be lessened, however, if the touchstone for avoiding a willfulness finding is not whether an expensive legal opinion was procured, but rather whether the infringer acted reasonably under the circumstances. For example, a company receiving a patent notice letter may conclude from its own internal investigation and analysis either that the asserted patent does not cover the company's activities or is likely invalid in view of known prior art. As long as the conclusion was reasonable under the circumstances and well-documented, this approach should be sufficient to avoid a willful infringement finding under the proposed standard.

### **The Bottom Line**

The Supreme Court appears set to at least modify, and perhaps completely overrule, the Federal Circuit's strict two-part test for willful infringement. Although reasonable arguments can be made in support of the current test, it does "stick in the craw a bit" that willful infringement can only be found in the rare circumstance where an infringer is unable to present a plausible defense at trial. A modified standard that would find willfulness when an accused infringer failed to act in an objectively reasonable manner based on the facts known to it at the time of infringement should strike an appropriate balance between respecting intellectual property rights and preventing misuse of the patent laws to stifle innovation.

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