INTELLECTUAL PROPERTY

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Companies Can Get Hammered for Willful Patent Infringement, Say Supremes

Three years ago, companies who knew their products infringed or might infringe a patent could roll the dice. That was a gamble worth taking. For example, in *Stryker Corp. v. Zimmer Inc.*, the patentee (the holder of the patent) had created a "pioneering" product. The patentee's competitor had no answer to this new device – and its market shares fell dramatically. Any company in the competitor's shoes faces a choice. The competitor "chose a high-risk/high reward strategy of competing immediately and aggressively...and opted to worry about the potential legal consequences later." *Stryker Corp. v. Zimmer Inc.*, Case No. 1:10-CV-1223 (W.D. Mich. Aug. 7, 2013). The competitor did not rely on its own engineers to develop an alternative product. Instead, it essentially asked an independent contractor to make a copy of the patentee's product. The result was predictable. The competitor immediately began capturing a market share with its competing product, which looked and functioned just like the patentee's product.

The patentee sued the competitor. At trial, the jury found the competitor willfully infringed the patentee's patents and awarded $70 million in damages, which reflected the profits the patentee lost as a result of the competing product. The district court also awarded the patentee treble damages and attorneys' fees, resulting in a total award of over $228 million. On appeal, the Federal Circuit (the U.S. appellate court specializing in patent cases) vacated the treble damages award because defenses the competitor raised during litigation were not "objectively unreasonable." In other words, no matter how egregious the competitor's conduct when it copied the product, it could escape treble damages because it was able to develop a reasonable defense during litigation.

$70 million is a lot of money. But that amount reflects only the patentee's lost profits for the years it had to compete with a copycat product. The competitor could have made millions by copying the patentee's product, and if it later lost at trial, as it did, all it had to give up were the profits the patentee would have earned if the competitor's copycat product hadn't come to market.

Last month, the United States Supreme Court changed the risk/reward analysis for business owners in a way that should grab the attention of all competitors.

The Patent Act and its Provisions for Attorneys' Fees and Enhanced Damages

Section 285 of the Patent Act states, "The court in exceptional cases may award reasonable attorney fees to the prevailing party." Similarly, section 284 states that after a finding of infringement, "the court may increase the damages up to three times the amount found or assessed." The increased damages are often referred to as "enhanced damages."

For Almost a Decade, the Federal Circuit Has Required an Objective *and* Subjective Test for Attorneys' Fees and Enhanced Damages

In 2005, the Federal Circuit stated its test for attorneys' fees under section 285: a case was "exceptional," and attorneys' fees may be awarded, only if the trial court found material inappropriate conduct such as willful infringement, fraud, misconduct during litigation, or vexatious and unjustified litigation. *See Brooks Furniture Mfg., Inc. v. Dutailier Int'l, Inc.*, 393 F.3d 1378 (Fed. Cir. 2005). Absent such misconduct, the litigation must have been both "brought in subjective bad faith" *and* be "objectively baseless." This test became known as the *Brooks Furniture* test.

Similarly, in 2007, the Federal Circuit stated a two-part test for enhanced damages under section 284, requiring both "objective recklessness" and "subjective knowledge." *In re Seagate Technology, LLC*, 497 F.3d 1360 (Fed. Cir. 2007). Under the "objective recklessness" prong of that standard, "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," without regard to "[t]he state of mind of the accused infringer." The categorical bar applies even if the accused infringer was unaware of the defense when it acted. This two-part test became known as the *Seagate* test.

Under these standards, the result in *Stryker* was unsurprising. No matter the evidence about the competitor's subjective state of mind and actions (*i.e.*, asking an independent contractor to copy the patentee's product), the competitor had raised a reasonable defense during litigation. According to the Federal Circuit, that made enhanced damages improper.

The Supreme Court's Decisions and its Practical Impacts

In 2014, the Supreme Court first changed the *Brooks Furniture* test. In *Octane Fitness, LLC v. ICON Health & Fitness Inc.*, 572 U.S. ___ (2014), based on the plain language of the statute, the Court held that district (trial) courts should consider the totality of the circumstances, and determine whether a case is "exceptional" on a case-by-case basis. The district courts would no longer be handcuffed by the requirement that the litigation be "objectively baseless."

And just last month, the Supreme Court abrogated the *Seagate* test. In *Halo Electronics, Inc. v. Pulse Electronics, Inc.*, 579 U.S. ___ (2016), the Court found the objective prong in the *Seagate* test ignored the plain language of section 284, and that "[s]uch a threshold requirement excludes from discretionary punishment many of the most culpable offenders, such as the 'wanton and malicious pirate' who intentionally infringes another's patent—with no doubts about its validity or any notion of a defense—for no purpose other than to steal the patentee's business." Instead, district courts should measure culpability against the knowledge of the infringer at the time of the challenged conduct.

These new standards announced by the Court give more protection to patent holders, and should change the decision-making process of business owners when their product could infringe a patent. No longer can an accused infringer escape awards of attorneys' fees or enhanced damages merely by presenting a defense during litigation that is not "objectively baseless." Rather, in cases such as *Stryker*, where the competitor "all but instructed its design team to copy" the patentee's products, the district courts will have discretion to award enhanced damages and attorneys' fees.

Similarly, business owners should now re-evaluate whether to obtain a patent opinion from outside counsel *before* engaging in business activities which may potentially infringe on a patent. Although there is no affirmative duty to obtain opinion of counsel, acquiring one may help avoid a later finding of willful infringement. Such opinions may be expensive; the concurring opinion in *Halo* recognized that patent opinions could easily cost up to $100,000 per patent. But it also states another less expensive possibility: "an owner of a small firm, or a scientist, engineer, or technician working there, might, without being 'wanton' or 'reckless,' reasonably determine that its product does not infringe a particular patent, or that that patent is probably valid."

The Supreme Court has now changed the risk/reward analysis for potential patent infringement. Business owners should take heed; the $228 million award against the competitor in *Stryker*, vacated by the Federal Circuit, likely would be upheld post-*Halo*. From now on, deliberate patent infringement could be punished so severely as to be far beyond a mere cost of doing business.

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