

What A Reversal In Stryker And Halo Would Mean

Law360, New York (February 26, 2016, 10:27 AM ET) --



Matthew Berkowitz



Patrick Colsher

Briefing and oral argument are now complete in the consolidated U.S. Supreme Court cases of *Stryker Corp. v. Zimmer Inc.* and *Halo Electronics Inc. v. Pulse Electronics Inc.*, which each address questions relating to enhancement of patent damages under 35 U.S.C. § 284.[1]

This article summarizes the briefing and oral argument positions, and analyzes the potential effects on patent litigation and opinion practice should the Supreme Court reverse and grant district courts greater discretion to enhance damages under Section 284.

35 U.S.C. § 284 recites, in relevant part, that after finding for the claimant, “the court may increase the damages up to three times the amount found or assessed.” Despite the seemingly discretionary nature of this statute, long-standing Federal Circuit jurisprudence requires that a district court first find willful infringement before it may enhance damages.[2] Moreover, in *Seagate*, the en banc Federal Circuit held that this prerequisite willfulness determination requires showings, by clear and convincing evidence, that (1) the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent, and (2) this objectively-defined risk was either known or so obvious that it should have been known to the accused infringer.[3]

Both *Stryker* and *Halo* present fact patterns that highlight the high bar a patentee must clear under *Seagate*. In *Stryker*, the jury awarded the patentee (Stryker) lost profits for defendant Zimmer’s infringement, and found that Zimmer’s infringement had been willful. The district court enhanced damages because the jury heard testimony that Zimmer “all but instructed its design team to copy Stryker’s products.” Nevertheless, the Federal Circuit reversed the willfulness determination, and vacated the damages enhancement, finding that, notwithstanding its prelitigation conduct, Zimmer presented objectively reasonable defenses during the course of the litigation.[4]

Halo is similar in the sense that the infringer’s objectively reasonable defenses were developed after the litigation had already begun. Halo alleged that Pulse was aware of the asserted patents years before the lawsuit, and that Pulse’s presuit due diligence consisted entirely of a single engineer’s two-hour review. Nevertheless, the district court held that Pulse’s infringement was not willful under Seagate because Pulse presented objectively reasonable litigation defenses. The Federal Circuit affirmed, although Judges Kathleen O’Malley and Todd Hughes concurred, urging the en banc court to reevaluate the Seagate standard in view of the Supreme Court’s decisions in Octane Fitness and Highmark.[5] The en banc court denied Halo’s rehearing petition, with Judges O’Malley and Hughes dissenting from that denial.[6]

The Supreme Court granted certiorari in both (now-consolidated) cases to address the following questions:

- Stryker: Whether the Federal Circuit improperly abrogated the plain meaning of 35 U.S.C. § 284 by forbidding any award of enhanced damages unless there is a finding of willfulness under a rigid, two-part test, when this court recently rejected an analogous framework imposed on 35 U.S.C. § 285, the statute providing for attorneys’ fee awards in exceptional cases.
- Halo: Whether the Federal Circuit erred by applying a rigid, two-part test for enhancing patent infringement damages under 35 U.S.C. § 284, that is the same as the rigid, two-part test this court rejected last term in Octane Fitness LLC v. ICON Health & Fitness Inc. for imposing attorney fees under the similarly worded 35 U.S.C. § 285.

Both petitioners’ opening merits briefs primarily focus on three arguments. First, Section 284 is a broadly worded, inherently flexible statute that provides district courts discretion to “increase the damages up to three times the amount found or assessed.” Second, the historical application of Section 284 and its predecessor statutes allow for enhancement whenever the circumstances require it, not just in instances of willful infringement. Third, the Supreme Court’s recent Section 285 “exceptional case” decisions parallel the issue here and favor abandoning the Federal Circuit’s “rigid” two-part Seagate test.

Against this backdrop, the petitioners argue that Seagate inappropriately limits enhanced damages to willful infringement; improperly allows for later-developed defenses to negate earlier egregious acts (e.g., a nonfrivolous defense developed during litigation negates blatant, prelitigation copying); and incorrectly requires proof by clear and convincing evidence and de novo review on appeal of the infringer’s objective reasonableness. Much like Octane Fitness and Highmark, the petitioners seek a single “totality of the circumstances” test where enhancement may be found for a variety of aggravating or egregious conduct, proven by a preponderance of the evidence, and reviewed on appeal for abuse of discretion.

The government filed a brief supporting the petitioners. Although its argument somewhat differs from the petitioners, the government agrees that Seagate imposes “unwarranted restrictions” on enhanced-damages awards. It argues that district courts “should exercise judgment and common sense, and they should generally reserve enhanced-damages awards for particularly egregious conduct that the court deems worthy of punishment and deterrence.”

The respondents’ briefs present a different textual and historical interpretation. Respondents assert that enhanced damages under Section 284 are, historically, a punitive remedy, available only upon a showing

of willful infringement. Most recently, Congress endorsed the Federal Circuit’s interpretation of Section 284 in the 2011 America Invents Act, which, with full awareness of Seagate, left Section 284 untouched. The respondents also attempt to distinguish Sections 284 and 285 — and thus Octane Fitness and Highmark — by arguing that they have different purposes, legislative histories, judicial interpretations, and policy considerations.

For example, the respondents argue Section 284 is a punitive remedy that punishes and deters willful infringement and can only be invoked by the patentee. Section 285, on the other hand, is a compensatory cost-shifting provision that can be invoked by either party. The respondents further reason that abandoning Seagate would hamper innovative companies and magnify the nonpracticing entity problem. It is cheap and easy for a patentee to send a letter alleging patent infringement; it is difficult and costly for an accused infringer to analyze and assess the merits. This dichotomy will only worsen if Seagate is overturned.

Some amici weighed in in favor of the respondents. Most notably, a group of six members of Congress — Sens. Patrick J. Leahy, D-Vt., Orrin G. Hatch, R-Utah, and Michael F. Bennet, D-Colo., and Reps. Lamar S. Smith, R-Texas, Robert W. Goodlatte, R-Va., and Steven J. Chabot, R-Ohio — filed a brief asserting that the Seagate standard should be maintained. They argued that Congress consciously chose not to amend Section 284 as part of the America Invents Act, knowing that the Seagate standard would remain in place.

Petitioners argue in reply that, although courts have often applied Section 284 to willful infringement, the case law is not so limited and courts are free to consider the totality of the circumstances. Policy considerations also favor rejecting Seagate—an infringer who for years acts in bad faith would no longer escape enhanced damages by later developing a reasonable defense. And, with respect to the AIA, Congress did not codify Seagate, or more generally, a willfulness prerequisite. Instead, Congress expressly considered and declined to adopt either option.

During oral argument, the court mostly appeared skeptical of the Federal Circuit’s Seagate test, but grappled with the appropriate replacement framework. Justice Sonia Sotomayor was explicit: She does not think Seagate is the appropriate test. Chief Justice John Roberts also indicated his disfavor of Seagate, emphasizing the broad statutory text and historical treatment of discretionary standards. Justice Elena Kagan took issue with the later-developed defense that saves a copycat infringer, characterizing it as a “bad incentive.” On the other side, Justice Stephen Breyer appeared most in favor of the respondents, latching onto the respondents’ policy-based argument about the increasing number of patents and licensing letters and the corresponding potential to stifle innovation, particularly for the “small businessman” that cannot afford to assess the patents’ merits.

Based on the briefing and oral argument, the Supreme Court appears set to overturn Seagate. The Supreme Court will likely follow its pattern of striking down overly rigid tests adopted by the Federal Circuit — like it did in Octane Fitness and Highmark, and like it has in number other recent cases such as KSR[7] (obviousness) and Bilksi[8] (patent-eligible subject matter). In the end, the broad, statutory text and historical interpretation will likely win out over a largely policy-based argument.

A Supreme Court reversal that gives greater discretion to district courts to enhance damages could have a profound effect on current patent litigation practice. Under Seagate, accused infringers rarely have to worry about prejudgment damages enhancements; as evidenced by the facts of Stryker, even if an accused infringer has presuit notice of the patent, effectively copies the patentee’s product, and ignores the need for an opinion of counsel, it can still avoid enhancement as a matter of a law by mounting an

objectively reasonable case defense. A Supreme Court reversal could drastically change this calculus, and parties' prelitigation practices. For example, opinion practice could take on a newfound importance, following a post-Seagate decline. This is particularly true if the standard for proving entitlement to enhanced damages is lowered to a preponderance of the evidence, as the petitioners' advocate.

From the patentee's side, it may become even more important to send detailed presuit notice letters. Under current practice, patentees looking to assert an indirect infringement claim often send pro forma notice letters in advance of litigation, if for no other reason than to "check-the-box" on the requirement that an accused infringer has actual knowledge of the asserted patents. If the after-developed defense is eliminated (or takes on reduced importance), patentees will be incentivized to send detailed notice letters to better position themselves to later argue for enhanced damages.

Given the amicus brief from certain members of Congress in support of the respondents, it will be interesting to see whether a Supreme Court reversal prompts congressional action reinstating the Federal Circuit's Seagate standard.

Decisions in Stryker and Halo are expected in June.

—By Matthew Berkowitz and Patrick Colsher, Shearman & Sterling LLP

Matthew Berkowitz is a partner and Patrick Colsher is an associate in Shearman & Sterling's New York office.

The opinions expressed are those of the author(s) and do not necessarily reflect the views of the firm, its clients, or Portfolio Media Inc., or any of its or their respective affiliates. This article is for general information purposes and is not intended to be and should not be taken as legal advice.

[1] Stryker Corp. v. Zimmer, Inc., No. 14-1520; Halo Elecs., Inc. v. Pulse Elecs., Inc., No. 14-1513.

[2] See, e.g., Beatrice Foods Co. v. New England Printing & Lithographing Co., 923 F.2d 1576, 1578 (Fed. Cir. 1991); In re Seagate Tech., LLC, 497 F.3d 1360, 1370–71 (Fed. Cir. 2007) (en banc).

[3] Seagate, 497 F.3d at 1371.

[4] Stryker Corp. v. Zimmer, Inc., 782 F.3d 649, 661–62 (Fed. Cir. 2014).

[5] Halo Elecs., Inc. v. Pulse Elecs., Inc., 769 F.3d 1371, 1382–86 (Fed. Cir. 2014); Octane Fitness, LLC v. ICON Health & Fitness, Inc., 134 S. Ct. 1749 (2014); Highmark, Inc. v. Allcare Health Mgmt. Sys., Inc., 134 S. Ct. 1744 (2014).

[6] Halo Elecs., Inc. v. Pulse Elecs., Inc., 780 F.3d 1357 (Fed. Cir. 2015).

[7] KSR Int'l Co. v. Teleflex Inc., 550 U.S. 398 (2007).

[8] Bilski v. Kappos, 561 U.S. 593 (2010).