No. 14-1513; 14-1520

IN THE

Supreme Court of the United States

HALO ELECTRONICS, INC.,

Petitioner,

v.

PULSE ELECTRONICS, INC., *et al.*,

Respondents.

STRYKER CORP., *et al.*,

Petitioners,

v.

ZIMMER, INC., *et al.*,

Respondents.

ON WRITS OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF FOR INTELLECTUAL PROPERTY OWNERS ASSOCIATION AS *AMICUS CURIAE* IN SUPPORT OF NEITHER PARTY

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INTEREST OF *AMICUS CURIAE*

Amicus curiae Intellectual Property Owners Association (IPO) is a non-profit, international trade association representing companies and individuals in all industries and fields of technology who own or are interested in intellectual property rights.[1] IPO's membership includes more than 200 companies and a total of over 12,000 individuals who are involved in the association, either through their companies or as inventor, author, executive, law firm, or attorney members. Founded in 1972, IPO represents the rights and interests of all owners of intellectual property, including patents. IPO regularly represents the interests of its members before Congress and the U.S. Patent and Trademark Office, and has filed numerous *amicus* briefs in this Court and other courts on significant issues facing intellectual property law. The members of IPO's Board of Directors, which approved the filing of this brief, are listed in the Appendix.[2]

IPO submits this brief because its members share a significant interest in establishing well-defined and appropriate standards for enhancing damages under Section 284 of the Patent Act. However, IPO takes no

1. No counsel for a party authored this brief in whole or in part, and no such counsel or party made a monetary contribution intended to fund the preparation or submission of this brief. No person other than the Amicus Curiae or its counsel made a monetary contribution to its preparation or submission. The parties have consented to the filing of this brief, including the consent of the Respondents in 14-1520 which is being submitted herewith.

2. IPO procedures require approval of positions in briefs by a two-thirds majority of directors present and voting.

position regarding an award of enhanced damages in either of the specific cases before the Court.

SUMMARY OF ARGUMENT

At issue is the standard for enhancing patent damages under Section 284 of the Patent Act. Section 284 is a punitive damages statute and provides that "the court may increase the damages up to three times the amount found or assessed." 35 U.S.C. § 284. A finding of willful infringement is the typical basis for an award of enhanced damages under Section 284. *See, e.g.*, *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 508 (1964) (noting that a patentee "could in a case of willful or bad-faith infringement recover punitive or 'increased' damages under the statute's trebling provision"); *Seymour v. McCormick*, 57 U.S. 480, 489 (1853) ("It is true, where the injury is wanton or malicious, a jury may inflict vindictive or exemplary damages, not to recompense the plaintiff, but to punish the defendant.").

The Federal Circuit in *In re Seagate Technology, LLC* set forth its standard for finding willful infringement. Under *Seagate*, a finding of willful infringement requires: 1) the patentee to show "that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent" (the objective prong) and 2) once the "threshold objective standard is satisfied, the patentee must also demonstrate that this objectively-defined risk ... was either known or so obvious that it should have been known to the accused infringer" (the subjective prong). 497 F.3d 1360, 1371 (Fed. Cir. 2007); *see also Bard Peripheral Vascular, Inc. v. W.L. Gore & Assocs., Inc.*, 682 F.3d 1003, 1005 (Fed. Cir. 2012).

IPO believes that the Federal Circuit's decision in *Seagate* states the correct standard for establishing willful infringement. IPO also believes that a finding of willful infringement provides a longstanding, well-established and well-defined standard for an award of enhanced damages under Section 284, firmly grounded in this Court's decisions, and thus willful infringement should continue as the typical basis for an award of enhanced damages under Section 284. Importantly, continuity in this regard will foster greater predictability concerning willfulness and enhanced damages for all parties involved in patent litigation.

To the extent that Section 284 also authorizes enhanced damages to be predicated on bases other than (or in addition to) a finding of willful infringement, as part of a "totality of the circumstances" analysis, enhanced damages should only be assessed against infringers who have acted in bad faith. *See, e.g., Aro*, 377 U.S. at 508; *Teese v. Huntingdon*, 64 U.S. 2, 9 (1860); *Day v. Woodworth*, 54 U.S. 363, 372 (1851). In other words, the presentation of a good faith (though unsuccessful) defense against a charge of patent infringement should not provide a basis for enhanced damages under Section 284.

ARGUMENT

I. *Seagate* States the Correct Standard for Establishing Willful Infringement

The Federal Circuit in *Seagate* stated its standard for establishing willful infringement – an objective test followed by a subjective test. IPO believes that this is the appropriate standard for determining willful

infringement. Indeed, this Court's precedent supports reliance on both objective and subjective prongs for finding willfulness in other contexts. For example, *Safeco Ins. Co. of Am. v. Burr* notes that "where willfulness is a statutory condition of civil liability, we have generally taken it to cover not only knowing violations of a standard, but reckless ones as well" and that "recklessness" is generally understood "as conduct violating an objective standard: action entailing 'an unjustifiably high risk of harm that is either known or so obvious that it should be known.'" 551 U.S. 47, 57, 68 (2007). Similarly, in *Smith v. Wade*, this Court held "that a jury may be permitted to assess punitive damages in an action under § 1983 . . . when it involves reckless or callous indifference to the federally protected rights of others." 461 U.S. 30, 56 (1983).

Seagate's reliance on both subjective and objective prongs in determining willfulness has additional benefits for the patent system. By requiring evidence of both objective recklessness and subjective bad faith, the *Seagate* decision has increased the ability of competitors seeking in good faith to design around patent rights to do so without risking a charge of willful infringement and reduced the frequency with which patent owners can allege willful infringement based on a scant evidentiary record.[3]

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3. This greater degree of predictability was highlighted by an empirical study of enhanced damages decisions pre- and post-*Seagate*. The study by Mr. Seaman, a Washington and Lee School of Law professor, found that awards of enhanced damages based on a finding of willfulness decreased significantly from about 80% before *Seagate* to just over 50% after *Seagate*. Christopher B. Seaman, *Willful Patent Infringement and Enhanced Damages After* In re Seagate, 97 Iowa L. Rev. 417, 466 (2012).

This Court's decisions in *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749 (2014) and *Highmark Inc. v. Allcare Health Mgmt. Sys., Inc.*, 134 S. Ct. 1744 (2014) are not to the contrary. While *Octane* and *Highmark* rejected the use of a rigid, two-part test for imposing attorney's fees under Section 285, the purpose of Section 284, and the standards under which it authorizes an award of enhanced damages, are fundamentally different than Section 285. Enhanced damages under Section 284 are intended to be punitive and based on willful or bad faith infringement by the defendant, while an award of attorneys' fees under Section 285 is compensatory.[4] *See Seymour*, 57 U.S. at 489; *Whitserve, LLC v. Computer Packages, Inc.*, 694 F.3d 10, 37 (Fed. Cir. 2012) ("[S]imilar considerations may be relevant to both enhanced damages and attorney fees. However, the situations in which § 284 and § 285 may be invoked are not identical.").

IPO believes that the *Octane* and *Highmark* decisions do not affect the willfulness analysis set forth in *Seagate* as applied to Section 284. And since the use of both objective and subjective tests for determining willfulness is in line with this Court's precedents in other contexts, IPO respectfully asks this Court to confirm the Federal Circuit's *Seagate* standard for willful infringement.

4. Section 285 states that "[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party."

II. While a Finding of Willful Infringement Is the Typical Basis for an Enhanced Damages Award, Entitlement to Enhanced Damages Can Be Predicated on Bad Faith

As discussed above, Section 284 is a punitive statute. If willful infringement is found, a court may enhance damages under Section 284. *See Aro Mfg. Co.*, 377 U.S. at 508 (noting that a patentee "could in a case of willful or bad-faith infringement recover punitive or 'increased' damages under the statute's trebling provision"); *Seymour*, 57 U.S. at 489 ("It is true, where the injury is wanton or malicious, a jury may inflict vindictive or exemplary damages, not to recompense the plaintiff, but to punish the defendant.").

Though IPO believes that a finding of willful infringement should be the most typical and primary basis supporting an award of enhanced damages, to the extent that other circumstances are included in the enhanced damages analysis, bad faith by the accused infringer should be required. Using bad faith as a touchstone (along with willful infringement) would eliminate the possibility that an accused infringer that has mounted a good faith defense against allegations of infringement would nonetheless be punished by an enhanced damages award. It is important that accused infringers be free to challenge the validity or scope of patents asserted in litigation without running the risk that a good faith (though unsuccessful) defense will result in enhanced damages.

In deciding whether to enhance damages, the Federal Circuit's prior decisions have described a two-step

process. *See, e.g., Whitserve, LLC*, 694 F.3d at 37. First, the fact finder determines "whether the infringer is guilty of conduct upon which increased damages may be based." *Id.* Next, the court determines "whether, and to what extent to increase the damages award given the totality of the circumstances." *Id.*

The guilty conduct in the first prong is most typically willful infringement. *Id.* Nevertheless, under current Federal Circuit case law, enhanced damages can be predicated on bases other than or in addition to a finding of willfulness. *See, e.g., Rite–Hite Corp. v. Kelley Co.,* 819 F.2d 1120, 1126 (Fed. Cir. 1987) ("Whether or not 'willfulness' is found, the court has authority to consider the degree of culpability of the tortfeasor. 'The measure of damages, as indeed the assessment of attorney fees, provides an opportunity for the trial court to balance equitable concerns as it determines whether and how to recompense the successful litigant.'" (quoting *S.C. Johnson & Son, Inc. v. Carter–Wallace, Inc.*, 781 F.2d 198, 201 (Fed. Cir. 1986)); *Jurgens v. CBK Ltd.*, 80 F.3d 1566, 1570 (Fed. Cir. 1996) ("Increased damages also may be awarded to a party because of the bad faith of the other side."). Possible factors for deciding "whether, and to what extent to increase damages," were identified by the Federal Circuit in *Read Corp. v. Portec, Inc.*, 970 F.2d 816, 827 (1992), *abrogated on other grounds by Markman v. Westview Instruments, Inc.,* 52 F.3d 967, 975-78 (Fed. Cir. 1995): (1) whether the infringer deliberately copied the ideas or design of another; (2) whether the infringer, when he knew of the other's patent protection, investigated the scope of the patent and formed a good-faith belief that it was invalid or that it was not infringed; (3) the infringer's behavior as a party to the litigation; (4) defendant's size

and financial condition; (5) closeness of the case; (6) duration of defendant's misconduct; (7) remedial action by the defendant; (8) defendant's motivation for harm; and (9) whether defendant attempted to conceal its misconduct. *Id.* at 827. These factors should remain instructive to a finding whether the defendant acted in bad faith and thus may be subject to an award of enhanced damages under Section 284.

IPO remains concerned, however, that an unfettered "totality of the circumstances" analysis for enhanced damages might decrease certainty and predictability in patent litigation. In the absence of clear touchstones, such as willful infringement and bad faith, the risk that enhanced damages might be awarded based on unclear or unpredictable standards risks the creation of greater leverage in patent licensing or settlement negotiations than is warranted by the merits of the underlying patent. For this reason, while the ability to enforce valid patents against infringers is an essential part of a strong patent system, the presentation of a good faith defense to a charge of infringement should never form the basis for the award of enhanced damages under Section 284. Therefore, while the factors enumerated by the Federal Circuit in *Read* may be helpful, IPO respectfully asks the Court to clarify that the award of enhanced damages should be limited to infringers who have been found to have willfully infringed, or to have acted in bad faith, consistent with this Court's decisions in *Aro*, *Teese*, and *Day*.

CONCLUSION

IPO asks the Court to confirm that the Federal Circuit's decision in *Seagate* sets forth the correct standard for establishing willful infringement. In addition, IPO asks the Court to clarify that enhanced damages should only be assessed against infringers who have willfully infringed or acted in bad faith.

Respectfully submitted,

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