Patent Law

Prof. Roger Ford
Wednesday, April 15, 2015
Class 23 – Remedies:
Increased Damages and Attorney Fees

Recap

Recap

- → Damages framework
- → Lost profits
- → Reasonable royalty

Today's agenda

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- → Attorney fees
- → Increased damages for willfulness

Attorney fees

(post-AIA) 35 U.S.C. § 285 — Attorney fees

The court in **exceptional cases may award reasonable attorney fees** to the prevailing party.

The American Rule

→ Each party normally pays its own attorney fees

- English rule: loser pays
- Theory: fee-shifting rules prevent potential plaintiffs from bringing meritorious legal claims
- Exceptions in narrow circumstances — sanctions for misconduct; copyright; civil-rights claims; a few more

Pre-*Octane* law

→ Three Federal Circuit doctrines:

- Attorney fees are limited to two cases:
  (1) material inappropriate conduct; or
  (2) litigation that both was brought in "subjective bad faith" and was "objectively baseless"
- Must be proved by clear and convincing evidence
- Reviewed de novo by Federal Circuit

→ All three overturned in *Octane/Highmark*

Octane Fitness

→ Structure of § 285: Substantial flexibility

- "Exceptional cases"
- "May award"
- "Reasonable attorney fees"

→ None of this supports the Federal Circuit's strict rules

Octane Fitness

→ What counts as an exceptional case?

Octane Fitness

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- "One that stands out from others with respect to the substantive strength of a party's litigating position … or the unreasonable manner in which the case was litigated."

Octane Fitness

→ What counts as an exceptional case?

- "One that stands out from others with respect to the substantive strength of a party's litigating position … or the unreasonable manner in which the case was litigated."
- Not entirely different from before:
  (1) material inappropriate conduct; or
  (2) "subjective bad faith" and "objectively baseless"

Oplus Technologies v. Vizio

→ District court (pre-*Octane Fitness*):

- Case was exceptional due to extensive litigation misconduct
- But, attorney fees not appropriate

→ Fed. Cir. (April 10, 2015):

- Vacated and remanded for reconsideration after *Octane Fitness*

Oplus Technologies v. Vizio

→ Misconduct:

- "Oplus misused the discovery process to harass Vizio by ignoring necessary discovery, flouting its own obligations, and repeatedly attempting to obtain damages information to which it was not entitled."

Oplus Technologies v. Vizio

→ Misconduct:

- "Oplus implemented an 'abusive discovery strategy' that involved 'avoid[ing] its own litigation and discovery obligations while forcing its opponent to provide as much information as possible about Vizio's products, sales, and finances.'"

"The court noted that its 'greatest concern … was Oplus's counsel's **subpoena for documents counsel had accessed under a prior protective order**.' In that instance, **counsel for Oplus represented an unrelated patentee in a prior litigation against Vizio and, pursuant to the protective order in that prior litigation, retained copies of documents produced by Vizio**. Here, counsel for Oplus, Niro, Haller & Niro, **drafted what it called a tailored subpoena for documents retained by counsel for the earlier plaintiff, which also happened to be Niro, Haller & Niro**. The court concluded that it 'strain[ed] credulity' to believe that Oplus **'issued the subpoena without using any knowledge by three attorneys [that both worked on the earlier case and the present case] as to the content of the discovery sought.'**"

"In another example, it noted that whereas **'Oplus's infringement contentions cite[d] a patent to show infringement'** of Oplus's patents, **its 'expert testifie[d] that the same patent did not disclose the methods of Oplus's patents.'** It found that 'Oplus consistently twisted the Court's instructions and decisions' and **attempted 'to mislead the Court.'** It complained that **when 'Oplus had no evidence of infringement of one element of a claim, it simply ignored that element and argued another.'** It found that **'Oplus regularly cited to exhibits that failed to support the propositions for which they were cited'** and that 'Oplus's malleable expert testimony and infringement contentions left Vizio in a frustrating game of Whac-A-Mole throughout the litigation.'"

"In fact, Oplus admitted, it **failed to address multiple noninfringement contentions in its summary judgment opposition**. * * * Fees Order at 8 n.3 (noting that Oplus's opposition to summary judgment failed to even address several steps of the claimed method). **Rather than stipulating to noninfringement, counsel forced the court to consider its opposition**, which was predicated on the presentation of contradictory expert testimony. This conduct caused **additional process and wasted party and judicial resources**."

Oplus Technologies v. Vizio

→ Court:

- "Although the award of fees is clearly within the discretion of the district court, when, as here, a court finds litigation misconduct and that a case is exceptional, the court must articulate the reasons for its fee decision."

Increased damages for willfulness

(post-AIA) 35 U.S.C. § 285 — Attorney fees

The court in **exceptional cases may award reasonable attorney fees** to the prevailing party.

(post-AIA) 35 U.S.C. § 284 — Damages

* * *

When the damages are not found by a jury, the court shall assess them. In either event the court **may increase the damages up to three times the amount found or assessed**. Increased damages under this paragraph shall not apply to provisional rights under section 154(d).

* * *

Increased damages

→ § 285: attorney fees in "exceptional cases"

- Supreme Court: this gives district courts substantial discretion

→ § 284: increased damages when … ??????

Increased damages

→ § 271(a): patent infringement is a strict-liability offense

→ § 284: court may award "up to three times" damages

Increased damages

→ § 271(a): patent infringement is a strict-liability offense

→ § 284: court may award "up to three times" damages

→ Federal Circuit: this is available only in the case of willful infringement

Willfulness

→ Alleged in 92% of patent complaints

→ Found in 55% of infringement trials

- 67% of jury trials

→ Affirmed in 94% of appeals

→ Pre-*Seagate*, never decided on summary judgment

→ Post-*Seagate*, often subject of summary-judgment motions

Willfulness

→ Willfulness can also matter for other things:

- Entitlement to injunctive relief under *eBay v. MercExchange*

Willfulness

→ Willfulness scenarios:

- Accused infringer is unaware of the patent before a lawsuit
- Accused infringer is aware of the patent but believes it does not infringe or the patent is invalid
- Accused infringer is aware of the patent but thinks there is a plausible defense
- Accused infringer is aware of the patent but ignores it or deliberately rolls the dice

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attorney opinion letters

Willfulness

→ Attorney opinion letters

- Get-out-of-jail-free card for big companies, at least for willfulness
- Typically cost $10–$100K
- Attorney-shopping is an issue
- Good way to build business
- Typically, separate from litigation counsel

Willfulness

→ *Underwater Devices v. Morrison-Knudsen* Co. (Fed. Cir. 1983)

- Era of widespread disregard for patent rights
- Attorney advised client to ignore patent because most patents were invalidated, without analyzing the patent
- Court: Upon notice of patent, potential infringer has "duty to exercise due care to determine whether or not he is infringing," including duty to obtain a legal opinion

Willfulness

→ *Kloster Speedsteel* (Fed. Cir. 1986)

- Failure to produce a legal opinion leads to an adverse inference

→ *Knorr-Bremse Systeme v. Dana* Corp. (Fed. Cir. 2004) (en banc)

- Adverse inference may not be made from failure to obtain legal opinion, or failure to produce it (!)
- So there's no real reason not to get a letter

In re Seagate

→ Two big holdings:

- Standard for willfulness
- Scope of privilege waiver

In re Seagate

→ Standard for willfulness?

In re Seagate

→ Standard for willfulness?

- *Underwater Devices:* just required negligence
- Now: requires at least objective recklessness
- Unlike most pieces of patent law, willfulness has a *mens rea* requirement

In re Seagate

→ Standard for willfulness?

- Objective: "[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."
- Subjective: "…must also demonstrate that this objectively-defined risk … was either so known or so obvious that it should have been known to the accused infringer."

(Attorney fees)

→ Pre-*Octane* attorney-fee cases:

- Attorney fees are limited to two cases: (1) material inappropriate conduct; or (2) litigation that both was brought in "subjective bad faith" and was "objectively baseless"
- Overturned in *Octane/Highmark*

In re Seagate

→ So now there's no duty to obtain an opinion of counsel

- Should companies do so anyway?

→ The old law gave companies an incentive to bury heads in the sand

- What about the new law?

In re Seagate

→ Scope of privilege waiver?

In re Seagate

→ Scope of privilege waiver?

- Court: extends only to opinion counsel, not litigation counsel
- Risk of distorting attorney-client relationship is too great

In re Seagate

→ Hypothetical #1

- Suppose I get a letter saying I infringe a patent
- I consult a patent attorney, who says it's close – a 50/50 chance of validity and infringement
- I keep selling the accused product
- Reckless?

In re Seagate

→ Hypothetical #2

- Suppose I get a letter saying I infringe a patent
- I consult general counsel (non-patent lawyer), who says "I'm no expert, but I think we're fine"
- I keep selling the accused product
- Reckless?

In re Seagate

→ Hypothetical #3

- Suppose I get a letter saying I infringe a patent
- Patent lawyer #1: "You infringe."
  Patent lawyer #2: "You infringe."
  Patent lawyer #3: "You don't infringe."
- I keep selling the accused product
- Reckless?

i4i v. Microsoft

→ How do we tell if someone acted willfully?

→ Evidence supporting willfulness:

- Microsoft designed its product to perform the same process as i4i's product
- After notice, Microsoft took no remedial action (designing around or ceasing infringement)
- Emails: goal to make i4i's product "obsolete"

→ Fed. Cir.: this evidence supported both the objective and subjective prongs of *Seagate*

Risk test

→ Evidence of objectively high likelihood of infringement:

- Merits of invalidity/noninfringement defenses
- Opinion of counsel (if it provides factual basis for defense)
- Relevant prior art
- Prior litigation

Risk test

→ Some courts: infringer's knowledge is relevant

- *i4i v. Microsoft:* Actual copying
- *Brilliant Instrument:* Knowledge provides "context" for determining whether defendant acted despite high likelihood of infringement
- *Power Integrations:* Evidence of copying so strong, and steps to avoid infringement so weak, it was "hard to understand" how an objectively high risk could not exist

Increased damages

→ § 285: attorney fees in "exceptional cases"

- Supreme Court: this gives district courts substantial discretion

→ § 284: increased damages when … ??????

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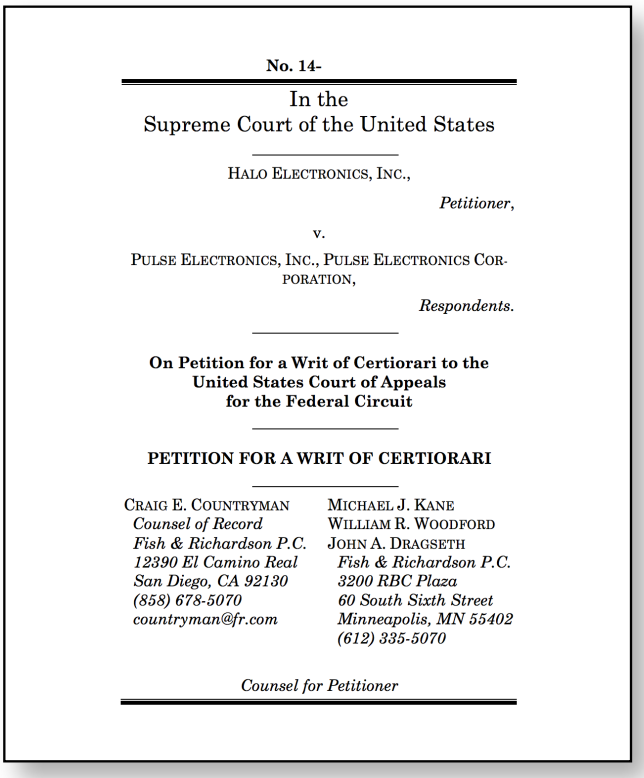
- Federal Circuit: this imposes strict willfulness requirements



No. 14-

In the
Supreme Court of the United States

HALO ELECTRONICS, INC.,
Petitioner,
v.
PULSE ELECTRONICS, INC., PULSE ELECTRONICS CORPORATION,
Respondents.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

PETITION FOR A WRIT OF CERTIORARI

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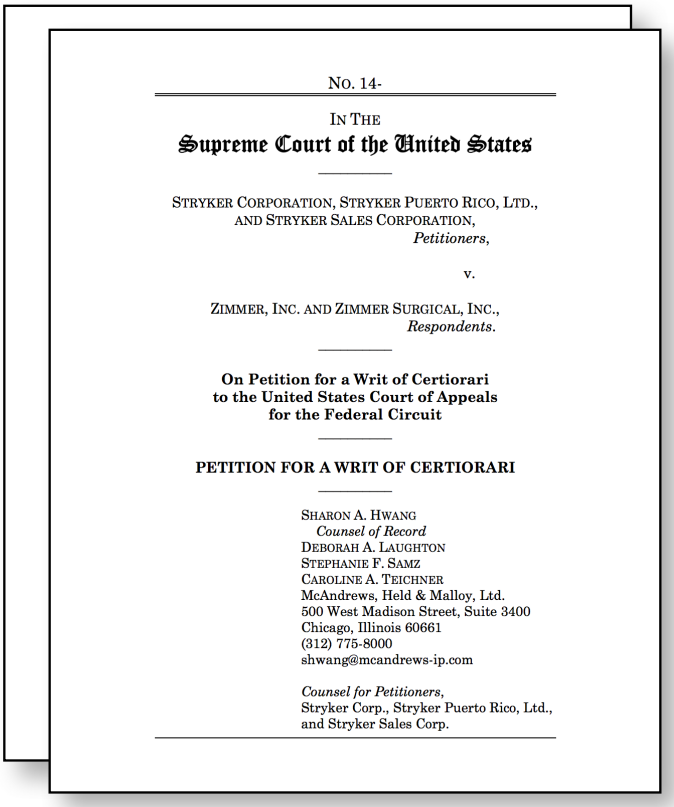
Halo Electronics v. Pulse Electronics

Stryker Corp. v. Zimmer Inc.



No. 14-

In The
Supreme Court of the United States

STRYKER CORPORATION, STRYKER PUERTO RICO, LTD., AND STRYKER SALES CORPORATION,
Petitioners,
v.
ZIMMER, INC. AND ZIMMER SURGICAL, INC.,
Respondents.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

PETITION FOR A WRIT OF CERTIORARI

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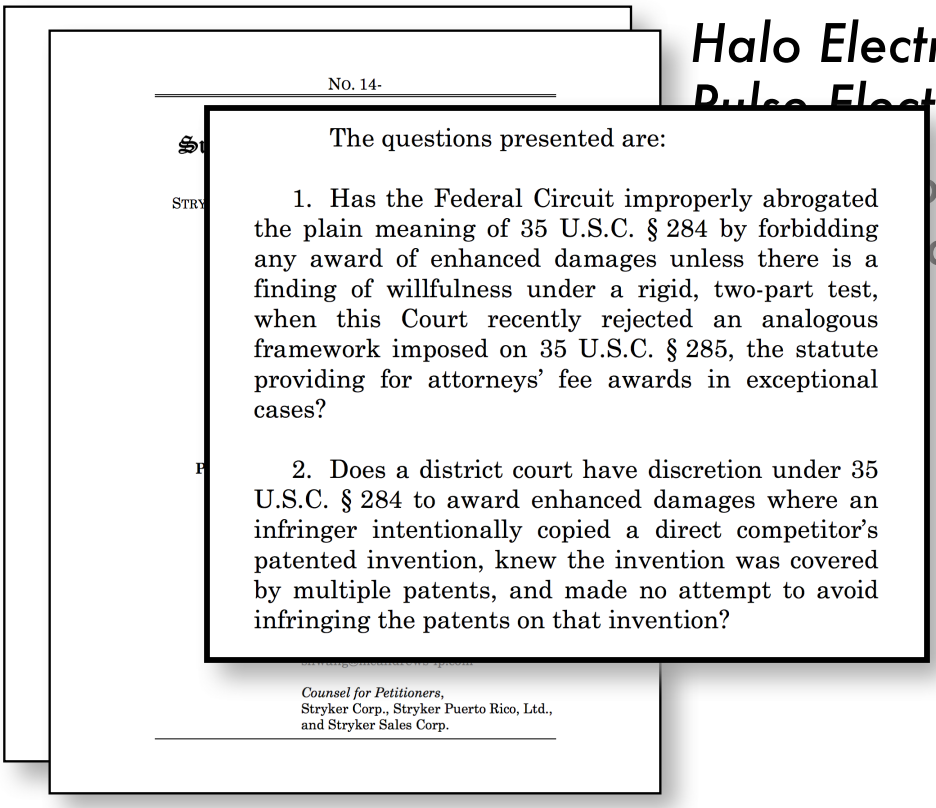
Stryker Corp. v. Zimmer Inc.



No. 14-

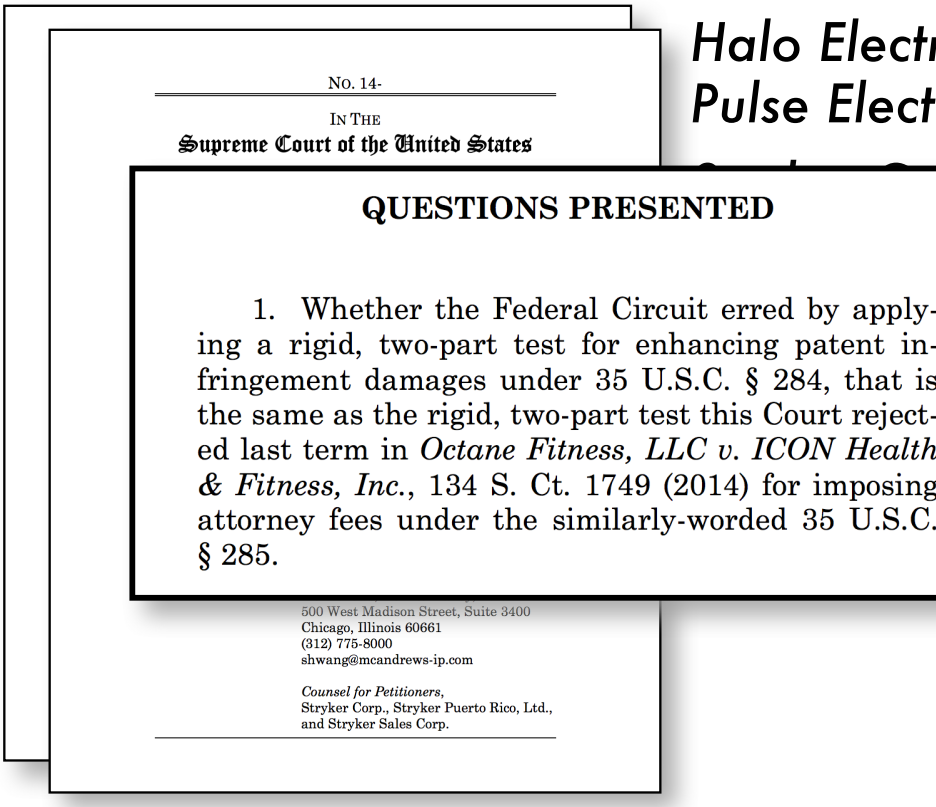
The questions presented are:

1. Has 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?

2. Does a district court have discretion under 35 U.S.C. § 284 to award enhanced damages where an infringer intentionally copied a direct competitor's patented invention, knew the invention was covered by multiple patents, and made no attempt to avoid infringing the patents on that invention?

Counsel for Petitioners,
Stryker Corp., Stryker Puerto Rico, Ltd.,
and Stryker Sales Corp.

Halo Electronics v. Pulse Electronics



No. 14-

IN THE
Supreme Court of the United States

QUESTIONS PRESENTED

1. 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.*, 134 S. Ct. 1749 (2014) for imposing attorney fees under the similarly-worded 35 U.S.C. § 285.

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Halo Electronics v. Pulse Electronics

Halo and *Stryker*

→ Argued on February 24

- Still pending
- The Court seemed divided
- No predictions…
- …but! Could completely rewrite this law!

"Justice Stephen Breyer was by far the most prominent questioner. His view of the case was quite clear: the Federal Circuit has **taken a vague statute and made a reasonable decision** to interpret the statute to limit enhanced damages to narrow circumstances, based on a **policy determination that broad availability of enhanced damages, on balance, would stifle innovation**.

"He repeatedly emphasized one overriding concern, that a lenient test for enhanced damages will **hurt small companies that can't afford to protect themselves** by obtaining a protective legal opinion every time they receive a demand letter."

Ronald Mann, *Argument analysis: Justices unsettled on standard for enhanced damages in patent cases,* ScotusBlog (Feb. 24, 2016)

"Justices Sonia Sotomayor, Anthony Kennedy, and Elena Kagan offered a second – arguably opposing – line of thinking. Their concern was that **the Federal Circuit's detailed test for willfulness might go too far, making it practically impossible to get enhanced damages** in any cases."

* * *

Justice Sotomayor: "I can't forget that **historically enhanced damages were automatic**, … because of a policy judgment that **owning a patent entitled you to not have people infringe willfully or not willfully**. But I don't know that we've swung things so far the other way that **if you come up with any defense whatsoever in the litigation that's not frivolous**, that gets you out of enhanced damages."

Ronald Mann, *Argument analysis: Justices unsettled on standard for enhanced damages in patent cases,* ScotusBlog (Feb. 24, 2016)

"For his own part, Chief Justice John Roberts pressed yet another view of the case, seemingly joined by Justice Ruth Bader Ginsburg. Both of them seemed to think the answer was to **put the issue in the discretion of the district court**, much as the Court did two terms ago with a similar statute in *Octane* and [*Highmark*] (which interpreted an adjacent section of the Patent Act). As Chief Justice Roberts put it, '**[h]istorically, the exercise of discretion in a lot of cases wears a channel [that] confines the exercise of discretion**.'"

Ronald Mann, *Argument analysis: Justices unsettled on standard for enhanced damages in patent cases,* ScotusBlog (Feb. 24, 2016)

"It is not at all easy to predict how this one will come out. About the most that can be said is that the Court as a whole seems **unlikely to affirm the Federal Circuit's reasoning**. My best guess would predict a somewhat split opinion – nothing new there in Supreme Court patent cases – that on the one hand **commends the issue largely to the district court's discretion** but on the other offers some **strong "guidance" responsive to the various concerns that Justices Breyer, Kagan, and Sotomayor pressed during the argument**."

Ronald Mann, *Argument analysis: Justices unsettled on standard for enhanced damages in patent cases,* ScotusBlog (Feb. 24, 2016)

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Next time

Next time

→ Inventorship and inequitable conduct