Morgan Lewis

IN-HOUSE PERSPECTIVES ON HOW ENHANCED DAMAGES WILL BE LITIGATED AFTER *HALO/STRYKER*

TECHNOLOGY MAY-RATHON

David Levy, Morgan Lewis
Angela Johnson, Hewlett Packard Enterprise
Mark Taylor, Microsoft

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Panelists

- Andrew Gray, Morgan Lewis (Host)
- Angela Johnson, Hewlett Packard Enterprise
- David Levy, Morgan Lewis
- Mark Taylor, Microsoft

Overview

- Will the Supreme Court change the standard for awarding enhanced damages in patent cases when it decides the Halo/Stryker cases?
- Will the Supreme Court also change the burden of proof and the standard of review?

Section 284

- Enhanced damages in patent cases
  - 35 U.S.C. § 284
    - **"[T]he court may increase the damages up to three times the amount [of damages] found [by the jury] or assessed [by the court]."**

Seagate Test

- Requires "willful infringement."
- Before awarding enhanced damages, the court must first find by clear and convincing evidence that (1) the infringer acted despite an objectively high likelihood that its conduct was infringing **["objective prong"]** and (2) the infringer knew or should have known of the risk **["subjective prong"].** See Seagate (CAFC 2007)(en banc).

Halo and *Stryker*

- The Stryker case.
  - Enhanced damages awarded under the 9 factors in Read (CAFC 1992)
  - BUT award of enhanced damages reversed because CAFC found that defendant presented defenses that were "not objectively unreasonable" in litigation.
- The Halo case.
  - Jury found willful infringement, but judge set it aside and did not award enhanced damages.
    - On the subjective prong, jury was also instructed to consider the "standards of commerce for [the defendant's] industry."
    - Judge found that invalidity defense at trial was not "objectively baseless or a sham."
  - CAFC affirmed, finding that objective prong in Seagate was not met.

Halo/Stryker

- Issue presented to SCOTUS:
  - **"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 [in Octane and Highmark] recently rejected an analogous framework imposed on 35 U.S.C. § 285, the statute providing for attorneys' fee awards in exceptional cases."** Stryker
  - **"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] for imposing attorney fees under the similarly-worded 35 U.S.C. § 285."** Halo
- Cases consolidated

Halo/Stryker

- **Argued** February 23, 2016.

- Parties and amici also addressed:
  - **Should courts apply a <u>preponderance of the evidence</u> or <u>clear and</u> convincing burden of proof?**
  - **Should the court's decision be reviewed <u>de novo</u> or for <u>abuse of discretion</u>?**

Octane and *Highmark*

- Should the Octane and Highmark decisions influence the Section 284 discussion?
  - **Section 284** versus **Section 285**.
    - **Section 285**: "The court in exceptional cases may award reasonable attorney fees to the prevailing party."
  - The holding in Octane (2014).
    - Rejected "unduly rigid" test that required subjective bad faith and objectively baseless litigation conduct. Replaced with "totality of the circumstances" test.
  - The holding in Highmark (2014).
    - Under Octane, district court has discretion to award fees (to be reviewed on appeal for abuse of discretion, not de novo).

Halo/Stryker

- Bottom line:
  - Will willful infringement and the two-part Seagate test still be required before punitive damages can be awarded in patent infringement cases?
  - OR will courts just look to the "totality of the circumstances"?
  - OR something in between?
  - What will the burden of proof standard be?
  - What will the standard of review be on appeal?

Halo/Stryker

- Amicus Curiae Briefs included:
  - **US Government** (supported plaintiffs – reserve enhanced damages for "particularly egregious" conduct based on knowledge at time of infringement)
  - **Congressmen** (supported defendants – AIA intentionally did not amend Section 284 after Seagate)
  - Briefs filed by HPE, Microsoft, Google, Facebook, Intellectual Property Owners, Ericsson, various professors, AIPLA, Intel, HPI, Medtronic, Huawei, Nokia, Marvell, LinkedIn, Netflix, Twitter, LES, EMC, Electronic Frontier Foundation, and others

The *Halo/Stryker* Test?

- **How will a new test affect patent assertions, responses and litigation?**
  - Defense strategies
    - Opinion letters
    - Tell a compelling story of good versus evil
  - Plaintiff strategies
    - Detailed pre-suit notice letters
    - Assert unexpired patents
    - Enhanced damages for pre-verdict versus post-verdict infringement
    - Tell a compelling story of good versus evil

Final Thoughts

- Will the new test be unconstitutional?
- Will there be Congressional action to change Section 284?

THANK YOU