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Argument analysis: Justices unsettled on standard for enhanced damages in patent cases

Moving through the first week any sitting Justice has heard oral argument without Justice Antonin Scalia, the bench was notably unsettled at yesterday morning's argument in the first patent cases of the October 2015 Term, *Halo Electronics v. Pulse Electronics* and *Stryker Corp. v. Zimmer, Inc.* On first glance, nothing about the cases seems particularly complex. They involve the standard for awarding enhanced damages under 35 U.S.C. § 284, which provides simply that the trial judge in a patent case, after damages have been determined, "may increase the damages up to three times the amount found or assessed." As the cases come to the Court, the Federal Circuit held that defendants, found liable for patent infringement, cannot be liable for enhanced damages under Section 284 because they presented an "objectively reasonable" defense at trial. That decision implemented the Federal Circuit's longstanding *Seagate* doctrine, under which enhanced damages are available only if the infringer had *both* a subjective intention to infringe (which can be satisfied by recklessness) *and* no objectively reasonable defense. The cases follow directly upon the Court's decisions two years ago in *Octane Fitness v. Icon Health and Fitness* and *Limelight Networks, Inc. v. Akamai Technologies, Inc.*, which rejected a similar reading of an adjacent section of the Patent Act.

For something that should have been an easy morning's work, the Justices were a bit scattered. Of course we'll never know what the argument would have been like if Justice Scalia had been there. And we'll never know what quips he would have offered as he tangled with counsel and his colleagues. Perhaps he might have offered the comprehensive solution so many of the Justices seemed to be seeking. What we do know is that all three arguing attorneys spoke for inordinately long periods of time without interruption. In recent years, that often has signaled that the Justices have largely settled on a resolution. In these cases, though, none of the Justices seemed particularly satisfied with either the standard that the Federal Circuit has articulated or anything the parties are offering.

A notable oddity of the argument was that several Justices seemed to be pressing distinct, apparently opposing concerns, but all seemed to think that if they could just come up with the proper verbal formula the case could be resolved, perhaps by consensus. In the absence of Justice Scalia, 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. As his discussion of the brief made clear, Justice Breyer's view on that point was sharply influenced by the *amicus* brief of Public Knowledge, the Electronic Frontier Foundation, and Engine Advocacy, which argued that large firms pervasively use the threat of enhanced damages as a tool to prevent small firms from competing. Although that brief is presented as a brief in support of neither party, it plainly led Justice Breyer to oppose anything that could be read as weakening the standard under which the defendants prevailed here.

At one point, describing his understanding of the Federal Circuit's motivation – which came off as a recitation of his own perspective – he explained that "we are afraid that if we do not use this objective standard, what we will see is a major effect discouraging invention because of fear that if we try to invent, we'll get one of these letters and we can't afford \$100,000 for an opinion." [Notice the referent of "we" shifting through the course of the sentence from the Federal Circuit, to Justice Breyer, to the victimized alleged infringer.] The "\$100,000" reference, it bears noting, was taken directly

from the Public Knowledge brief. Summing up his decided preference for deferring to the Federal Circuit, he explained that “we did create . . . that expert court [that is, the Federal Circuit] to make such determinations in the face of language that seems to allow it. So what is wrong with letting them do what they are paid to do?”

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, for example, commented to Carter Phillips – arguing on behalf of Pulse Electronics and Zimmer, the defendants – that

there’s a whole lot of worry articulated by Justice Breyer and reflected in your brief about protecting innovation but there’s not a whole lot of worry about protecting the patent owner. 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.

Justice Kennedy, the new Senior Associate Justice, pressed Phillips on whether there was “any way to allow some consideration for a subjective intent to infringe in an egregious case . . . without completely wrecking the *Seagate* standard.” Taking up the same line of questioning, when Justice Kagan posed a hypothetical about a defendant that copied a successful patented product solely to “reap the benefits of some other person’s work,” she almost pleaded with Phillips to offer a way to permit enhanced damages in that case. But Phillips resisted, suggesting that such a case was as rare as a “unicorn,” and that it made no sense to design rules for ordinary cases based on such an outlier. Although Justice Kagan allowed Phillips to make his point at length – remarkable length by the Court’s normal standards – he made little headway; at one point she commented that the inability to award damages in such a case under *Seagate* “seems to stick in the craw a bit.”

On the surface, the concerns for patent holders that Justices Kagan and Sotomayor voiced seem directly opposed to Justice Breyer’s concerns for alleged infringers and would suggest a likelihood of a divided bench. But the group seemed to envision a single phrase that would capture all of their concerns better than the Federal Circuit’s high bar for willfulness. Coming into the argument, the most obvious candidate was the Solicitor General’s suggestion that courts look for “egregious” conduct. So, early in the argument, Justice Sotomayor suggested that the Solicitor General’s recommendation that the statute apply to “egregious conduct” seemed right to her, at least if it could be cabined to accommodate “what Justice Breyer is concerned about, which I think is a legitimate concern.” Justice Kagan also had some sympathy for that phrase, using “egregious” in her questions to describe the kind of conduct that should justify relief. You would have expected Assistant to the Solicitor General Roman Martinez to embrace the idea that the standard he was defending was flexible enough to assuage the disparate concerns. But that was not at all his approach. Rather, pressed by Chief Justice John Roberts, he explained that in the view of the Solicitor General, the “egregious” conduct test did not differ substantially from the relatively lenient test sought by the plaintiffs.

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 *Limelight* (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.” And then again later, seeming to lose patience with the variety of nightmare scenarios being threatened by counsel and his colleagues,

[t]he statute leaves a lot of discretion to the district courts. And a lot of the arguments we’ve heard today are the sort of arguments that can be made to the district court’s discretion in a particular case. And you have these standards to apply, and the district court will exercise the discretion. And if it’s out of the channel of discretion, then the Court can review it on that basis.

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.

Posted in *Halo Electronics v. Pulse Electronics, Stryker Corp. v. Zimmer*, [Analysis](#), [Featured](#), [Merits Cases](#)

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