

## Halo V. Pulse: The Willfulness Debate Rages On

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In *Halo Electronics Inc. v. Pulse Electronics Inc.*, (Fed. Cir. Mar. 23, 2015), the Federal Circuit recently denied a petition for en banc reconsideration of the willfulness doctrine under 35 U.S.C. § 284, which governs damages for patent infringement. The court's concurring and dissenting opinions, however, make clear that the controversy surrounding the application of § 284 continues.

Although the § 284 statute is "close to content free in what it expressly says about enhanced damages," the Federal Circuit has long required that a patent holder first prove willful infringement before the court enhances damages. When deciding whether infringement is willful, the Federal Circuit has instructed district courts to apply a two-part test that asks whether a patent infringer acted despite "an objectively high likelihood" of infringement while being subjectively aware of that risk. In *re Seagate Tech. LLC*, 497 F.3d 1360, 1371 (Fed. Cir. 2007)



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Despite agreeing to deny the petition in *Halo*, Judge Richard G. Taranto authored a concurring opinion, joined by Judge Jimmie V. Reyna, that acknowledged several "fundamental questions about the substantive standards" that might need to be revisited. One of these questions asks "whether willfulness should remain a necessary condition for enhancement under § 284's 'may' language." As Judge Taranto noted, "Section 284 ... continues to lack language prescribing substantive or procedural standards for the enhancement of damages." In his view, however, *Halo* was not the right vehicle for deciding if the Federal Circuit should continue to require willfulness because the "only enhancement-related question that *Halo* presents for en banc review is whether the objective reasonableness of Pulse's invalidity position must be judged only on the basis of Pulse's beliefs before the infringement took place."

Still, the Federal Circuit's opinions rekindled a continuing debate, leading it to predict that it doubtlessly "will receive various requests for en banc review of some or all of the many possible § 284 questions in other cases." But despite the court's recent angst, its enhanced damages doctrine rests on solid ground.

### The Willfulness Debate

The first question broached in *Halo* — and perhaps the most controversial — is whether a patent holder

should be required to prove that an infringer acted willfully before the court may enhance damages.

Unlike the current discretionary system, courts in the earliest days of American patent protection were required to treble damage awards. With the Patent Act of 1836, though, Congress made enhanced damages discretionary by enabling courts to consider the “circumstances of the case” and “render judgment for any sum above,” but not more than “three times,” the amount of actual damages. Thus, Congress provided flexibility to enhance damages — but offered no criteria for doing so.

Faced with § 284’s silence, the courts have developed their own doctrine for awarding enhanced damages. The majority have required mental culpability on the infringer’s part before increasing damages awards. The U.S. Supreme Court has never explicitly established willfulness as a prerequisite, but did explain in *Aro Manufacturing Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 508 (1964), that a plaintiff “could, in a case of willful or bad-faith infringement, recover punitive or ‘increased’ damages under the statute’s trebling provision.” Accordingly, in *In re Seagate Technology LLC*, the majority explained that “[a]bsent a statutory guide, we have held that an award of enhanced damages requires a showing of willful infringement. ...This well-established standard accords with Supreme Court precedent.”

Yet in his concurrence in *Seagate*, Judge Arthur J. Gajarsa (joined by Judge Pauline Newman) argued that the standard — requiring a showing of willfulness — is not historically “well-established.” Because patent damages were often difficult to precisely measure, some have viewed enhanced damages as remedial; if an ostensibly confused jury’s award was inadequate, the judge could increase it appropriately. Thus, under this interpretation, § 284 rejects any limit on the courts’ discretion, including a history of requiring willfulness. Noting the lack of explicit constraints, Judge Gajarsa’s concurrence argued against tacking a judicially created limitation onto the statutory text, and suggested that the Federal Circuit “take this opportunity to bring patent law regarding damages into the mainstream of general law and avoid the necessity of carving a special niche.”

### **The Willfulness Standard Is Proper From a Historical Perspective**

Judge Gajarsa’s admonition to bring patent damages “into the mainstream” actually weighs toward requiring a showing of willfulness. Although the statutory grant of discretion is unlimited, longstanding common law tenets give context to when that discretion should be exercised.

Courts already have the discretion to enhance damage awards for most civil wrongs. Typically, though, the goal is to accurately compensate a plaintiff who has been harmed, rather than deliver a moral rebuke. Thus, in the general civil context, courts have “almost universally” held that a certain threshold of culpability is necessary to enhance damages: “To subject a wrongdoer to liability for exemplary damages, it must be found that he acted with actual malice, ill will, or conscious disregard of consequences to others.” *MCCORMICK ON DAMAGES* at 280 (1935).

The Supreme Court touched upon this principle when explaining Congress’ 1836 decision to make enhancement of damages for patent infringement discretionary:

The defendant who acted in ignorance or good faith, claiming under a junior patent, was made liable to the same penalty with the wanton and malicious pirate. This rule was manifestly unjust. For there is no good reason why taking a man’s property in an invention should be trebly punished, while the measure of damages as to other property is single and actual damages. 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. *Seymour v. McCormick*, 57 U.S. 480, 488–89 (1853).

Thus, in accordance with our general common law traditions, treating patent damages as “mainstream” requires that the “power to increase is triggered only when the infringer’s conduct warrants an exemplary reward.” CHISUM ON PATENTS, § 20.03[4][b][iii]. Maintaining this principle as a bright-line rule increases the deterrent effect of enhanced damages by only sanctioning intentionally harmful conduct, which is especially important considering that “good faith challenges to the validity or scope of patent rights should be encouraged rather than punished.” *Id.*

Furthermore, developments in the law have reduced the need to use enhanced damages as a compensatory backstop. In the early 20th century, the recognition of the reasonable royalty concept as a measure of damages gave courts a new flexible option when lost profits or an established royalty could not be proven. Later, in 1952, Congress reduced the risk of an unfairly low damages figure by establishing the reasonable royalty as the minimum award. Significant judicial experience — including almost 50 years applying the Georgia-Pacific factors — now informs the reasonable royalty analysis. And today, experts offer complex damages assessments as a matter of course. Thus, contemporary jurors are increasingly more equipped to calculate damages than they were in the past.

Finally, as noted by Judge Taranto in *Halo*, Congress had a chance to repudiate *Seagate* and the judicially imposed willfulness test when it passed the America Invents Act in 2011. Instead, it continued to leave the courts free to graft their own clearly established jurisprudence onto § 284.

Because evaluating patent damages has become more nuanced — and the nominal awards of the past have been eliminated — there is less reason to treat enhanced damages as a method of compensation. Instead, enhanced damages should be reserved for their traditional role: a punitive award responding to unethical behavior. Absent that showing, patent infringers should not be treated more harshly than other civil defendants. Accordingly, the Federal Circuit’s requirement of willful infringement before damages may be enhanced appropriately harmonizes patent law with our broader system.

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