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High Court Appears Set To Relax Patent Damages Test

Share us on: By **Ryan Davis**

Law360, New York (February 23, 2016, 9:34 PM ET) -- The [U.S. Supreme Court](#) indicated at arguments Tuesday that it is inclined to discard the Federal Circuit's strict test for awarding enhanced damages in patent cases, which the justices criticized as "elaborate" and "artificial," but appeared torn over what the new standard should be.



(Credit: Law360)

The Patent Act allows judges to award triple damages in patent cases but provides no specifics about when such awards are appropriate, so the Federal Circuit has set a two-part test patent owners must meet to get enhanced damages. At arguments in a case involving patent owners [Stryker Corp.](#) and Halo Electronics Inc., each of whom failed to win enhanced damages after their patents were found to be infringed, the justices expressed concern about the current test.

The Federal Circuit has held that patent owners must show there was a high likelihood that the infringer's actions constituted infringement and that the infringer knew of that risk. Halo and Stryker argue that test is too difficult to meet and judges should have discretion in awarding enhanced damages.

Chief Justice John Roberts pointed out that the statute states only that "the court may increase the damages up to three times the amount found or assessed," and said that simple language is at odds with the Federal Circuit's test.

"To erect this fairly elaborate standard on the basis of that language I think is surprising," he said.

Likewise, Justice Sonia Sotomayor called the test "artificial" and said she was concerned that under the Federal Circuit's high bar, "any defense whatsoever in the litigation that's not frivolous, that gets you out of enhanced damages."

Justice Elena Kagan said that it "seems like a bad incentive" that under the current test, an accused infringer can make a deliberate decision to copy a patented invention, but if the infringer's attorney can raise some doubt about the validity of the patent later on, enhanced damages are essentially off the table.

"It seems to stick in the craw a bit," she said.

Despite their misgivings about the test, the justices appeared divided over how to replace it. Chief Justice Roberts indicated he was leaning toward the approach advocated by Stryker and Halo, which would give district judges wide latitude on when to award enhanced damages.

Chief Justice Roberts said the statute "leaves a lot of discretion to the district courts." He suggested that judges can look at a case and decide whether "it is a serious one or it's a less serious one" and enhance damages appropriately.

However, Justice Sotomayor argued that the high court should not give district judges a completely free hand.

"Even if you give discretion to the district courts to make a judgment of when to enhance penalties, we have to give them some guidance," she said. "It can't be that they can give enhanced penalties on whim."

Justice Stephen Breyer said he was concerned that relaxing the standard could hurt small-business owners, who could risk being hit with enhanced damages unless they get an opinion of counsel that they don't infringe any patent possibly related to their products, which he said was unrealistic.

"Today's patent world is not a steam-engine world," he said. "We have decided to patent tens of thousands of software products and similar things where hardly anyone knows what the patent's really about."

Clearing the way for more frequent awards of enhanced damages in patent cases, he said, could give too much power to big businesses.

"We have one more path leading us to national monopoly by [Google](#) or [Yahoo](#) or their equivalents, and the patent statute is not designed to create monopolies throughout the United States," he said. "It's designed to help the small businessman, not to hurt him."

Stryker won \$210 million including enhanced damages against Zimmer Inc. in a surgical patent

case, but the award was reduced to \$70 million after the Federal Circuit found it had not met the enhanced damages test. Something similar happened to Halo in an unrelated dispute with Pulse Electronics Inc., and the high court agreed to hear their appeal together.

Jeffrey Wall of [Sullivan & Cromwell LLP](#), an attorney for Stryker, told the justices that the current high bar for enhanced damages means that "a large number of the worst infringers, even bad-faith copiers, are not — are immunized from any enhancement."

In contrast, Carter Phillips of [Sidley Austin LLP](#), an attorney for Pulse, told the court that "this case comes down to what do you worry about more, pirates or trolls?"

According to Phillips, Halo and Stryker are urging a change to the current test that will make it easier to go after pirates, or companies that deliberately copy other people's patents, but there are few such cases. Meanwhile, making enhanced damages more available would empower so-called patent trolls, which Phillips suggested are a bigger problem.

Under a relaxed enhanced damages test, "you'd end up with a rule that will allow the trolls to go after every legitimate producer of products and services in this country," he said.

Jose Patino of [Foley & Lardner LLP](#), who is following the case, described that argument as a "new characterization" of the battle between patent owners and accused infringers that "may loom large" in the court's decision.

He noted that the justices appeared to have trouble deciding which revised test to use, which could mean that "the Halo and Stryker decisions by the Federal Circuit might just well be affirmed."

Robert Fischer of [Fitzpatrick Cella Harper & Scinto](#), another observer, said after the arguments that the court will likely change the standard, but it is unclear how.

"It looks like they're going to try to discount later found or arrived at defenses, but at the same time not leave discretion totally in the hands of the district court. But I didn't hear anyone articulate a theory" of exactly how to do that, he said.

Stryker is represented by Jeffrey Wall, Austin Raynor, Garrard Beeney and Robert Giuffra of [Sullivan & Cromwell LLP](#), and Sharon Hwang, Deborah Laughton and Stephanie Samz of [McAndrews Held & Malloy Ltd.](#)

Zimmer is represented by Seth Waxman, Thomas Saunders, Thomas Sprankling, John Sprangers, Jason Hirsch, Mark Fleming and Rebecca Bact of [WilmerHale](#), and Donald Dunner of [Finnegan Henderson Farabow Garrett & Dunner LLP](#).

Halo is represented by Craig Countryman, Michael Kane, William Woodford and John Dragseth of [Fish & Richardson PC](#).

Pulse is represented by Mark Hogge, Victor Boyajian, Shailendra Maheshwari, Charles Bruton

and Rajesh Noronha of [Dentons](#), and Carter Phillips, Constantine Trela and Steven Horowitz of Sidley Austin LLP.

The cases are Stryker Corp. v. Zimmer Inc., case number 14-1520, and Halo Electronics Inc. v. Pulse Electronics Inc. et al., case number 14-1513, in the U.S. Supreme Court.

--Editing by Aaron Pelc. Photo by Jonathan Hayter.