“Characteristic of a Pirate”: Willfulness and Treble Damages

By Michael Feldman and Mark A. Lemley

For over a decade, the U.S. Court of Appeals for the Federal Circuit — and patent law — have had a hard time at the Supreme Court. The court regularly reverses the Federal Circuit, almost always replacing a pro-patent Federal Circuit decision with a Supreme Court decision less friendly to patentees. From this perspective, the Supreme Court’s recent decision in *Stryker v. Zimmer* and *Halo v. Pulse* seems to take a step backwards, providing stronger leverage for patent trolls.

But there is another overarching theme to the Supreme Court’s review of Federal Circuit cases in the last 15 years. While the Federal Circuit is fond of bright-line rules, the Supreme Court likes discretion and case-by-case examinations of the facts. By that standard, the *Halo* and *Stryker* decisions aren’t much of a surprise. Like prior cases, they reject the Federal Circuit’s two-part *Seagate* test as too rigid and replace it with a standard that takes various factors into account and gives seemingly broad discretion to district courts. That too might seem worrisome to patent defendants, giving patentees a greater ability to shop for patent-friendly district courts and possibly treble damages in a wide range of cases.

But a closer look at the opinion suggests that all is not lost. Justice John Roberts’ opinion for the majority of the court dedicates treble damages to district court judges’ discretion, but the language in the court’s opinion is open to interpretations that could either expand or constrict the current scope of treble damages.

In *Halo* and *Stryker*, the Supreme Court replaces the Federal Circuit’s rigid test with flexible standard, as it has done before in cases such as *Commil USA, LLC v. Cisco Sys., Inc.*, 135 S. Ct. 1920 (2015) and *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013). Patent owners no longer need to convince courts that defendants “[a]cted despite an objectively high likelihood that its actions constituted infringement of a valid patent” or that the risk of infringement “was either known or so obvious that it should have been known to the accused infringer.” *In re Seagate Technology, LLC*, 497 F.3d 1360 (Fed. Cir. 2007). Instead, the court leaves treble damages to the discretion of district court judges.

This outcome is a testament to the power of the chief justice — either his power to persuade his fellow justices or his power to assign authorship decisions. During oral argument, none of the justices seemed to support the *Seagate* test. However, the majority of the justices did seem prepared to adopt *some* test or standard for proving willfulness as a prerequisite to treble damages. Only Roberts seemed to support simple discretion. Justice Elena Kagan acknowledged that “we have a test that everybody’s off at this point” and Justice Sonia Sotomayor was concerned “[e]ven if you give discretion to the district courts ... we have to give them some guidance It can’t be that they can give enhanced penalties on whim.”

The court's decision echoes that language, going out of its way to note that "discretion is not whim." Still, the court's decision to replace a rigid rule with a flexible standard creates as many questions as it answers. For instance, it is now clear that subjective intent to infringe a patent may be *sufficient* for treble damages even if the infringer's has objectively reasonable defenses. However, it remains unclear whether this kind of subjective intent is *necessary*. The majority's opinion is replete with terms like "willful, wanton, malicious, bad-faith, deliberate, consciously wrongful, flagrant, or — indeed — characteristic of a pirate." Coupled with the court's emphasis on the historic role of willfulness, that seems like a pretty strong message that courts cannot simply treble damages without finding willfulness or something like it. But it remains to be seen whether lower courts will hear this as a limitation on the exercise of discretion or merely a recitation of synonyms for "egregious."

The two clearest articulations of the court's holding are, themselves, somewhat inconsistent. The court first holds that treble damages "should generally be reserved for egregious cases typified by willful misconduct." In context, lower courts might interpret this as a suggestion that treble damages requires subjective intent to engage in misconduct, in which case, the Supreme Court has established a standard stricter than *Seagate's*. The court's discussion of the historical role of willfulness supports that reading.

On the other hand, the court later states that it is "limiting the award of enhanced damages to egregious cases of misconduct beyond typical infringement." Lower courts might interpret *this* statement as a suggestion that treble damages are appropriate in any case that goes "beyond typical infringement." Depending on what might go beyond typical infringement, this broader reading might have loosened the standard for treble damages.

If willfulness is required, how is it to be proved? The court rejects the *Seagate* "objective recklessness" test, but doesn't offer any guidance on what might replace it. For that reason, the court also leaves the future of "opinion letter" practice an open question. The court holds that "culpability is generally measured against the knowledge of the actor at the time of the challenged conduct," but it is not clear whether this means that courts should measure culpability from the time an accused infringer first creates its product or from the time a patent owner sends a cease and desist notice. A system measuring culpability at the time the accused infringer first creates its product would be more consistent with the interpretation that treble damages are designed to deter intentional and deliberate infringers. That seems the fact pattern the court had in mind at oral argument and in writing the opinion. But it is not how willfulness has been measured in the Federal Circuit. A system measuring culpability at the time of a cease and desist letter — that not immediately ceasing to sell your products once someone produces a patent — could be consistent with the interpretation that treble damages are appropriate in any case "beyond typical infringement."

Both Chief Justice John Roberts' majority opinion and Justice Stephen Breyer's concurrence express concern over the cottage industry of expensive "opinion letter" practice. The majority states that the Congress added Section 298 of Patent Act to address

the “fallout” from a system creating a duty to obtain opinion letters. The concurrence describes how requiring an “opinion letter” in response to every cease and desist notice allows a “patent to reach beyond its lawful scope to discourage lawful activity [and] ... frustrate, rather than ‘promote,’ the ‘Progress of Science and useful Arts.’” This seems to indicate that the court intended to measure culpability from the time an accused infringer first creates its product, making opinion letters irrelevant unless the defendant knew of the patent at the time it started infringing. We think that is the better reading. But the court did not say so expressly.

Finally, it is not clear whether a jury has any continuing role to play in treble damages. The court leaves treble damages to the discretion of the district court, with appellate review for abuse of discretion. It seems to think that judges, not juries, will decide whether the defendant has engaged in willful and egregious conduct. Abuse of discretion, after all, is a standard of review for determinations made by judges, not juries. Having done away with *Seagate*’s “clear and convincing” evidence standard, the power to impose treble damages may now lie exclusively with the judge. But again, the court doesn’t say so expressly.

The Supreme Court has clearly rejected any rigid formulation for determining treble damages. Whether this holding will result in more treble damages or fewer, more consistency or less, will depend on how the lower courts resolve a number of important issues. And that in turn may depend on who is doing the resolving.

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