

Seeking Guidance on Willfulness After *Halo/Stryker* ? Look to the Past.

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The Supreme Court’s decision in *Halo Electronics, Inc. v. Pulse Electronics, Inc.*, 579 U. S. ____ (2016), swept away the Federal Circuit’s “objective recklessness” test (or *Seagate* test) for deciding whether a patentee is entitled to enhanced damages under 35 U.S.C. § 284. In eschewing “any rigid formula” for awarding enhanced damages, the Supreme Court turned back the clock on the law of willfulness, instructing district courts to apply their discretion under § 284 consistent with the “sound legal principles developed over nearly two centuries of application and interpretation of the Patent Act.” Slip op. 15. So instructed, district courts must now look back at Supreme Court decisions from the 19th century that interpreted the similarly-worded enhanced damages provisions of the 1836 and 1870 Patent Acts.

Know and Cite the Old Cases

The following Supreme Court cases interpreted the enhanced damages provisions of the 1836 and 1870 Patent Acts, and are therefore mandatory reading for any litigant seeking or defending against enhanced damages in today’s post-*Halo* world:

- *Topliff v. Topliff*, 145 U.S. 156, 174 (1892) (“Under these circumstances”—i.e., where “*defendant, knowing all their customers and plaintiffs’ facilities for the manufacture of equalizers, made serious inroads upon their business, and sold almost exclusively to those who had formerly been customers of the plaintiffs*”—“we should not have disturbed the decree of the court below if it had seen fit to increase the damages”) (emphasis added).
- *Tilghman v. Proctor*, 125 U.S. 136, 143-44 (1888) (“[T]he court may, whenever the circumstances of the case appear to require it, inflict vindictive or punitive damages, by rendering judgment for not more than thrice the amount of the verdict.”) (emphasis added).
- *Clark v. Wooster*, 119 U.S. 322, 326 (1886) (“There may be damages beyond [a reasonably royalty], such as the *expense and trouble the plaintiff has been put to by the defendant, and any special inconvenience he has suffered from the wrongful acts of the defendant*; but these are more properly the subjects of allowance by the court under the authority given to it to increase the damages.”) (emphasis added).

- *Birdsall v. Coolidge*, 93 U.S. 64, 69-70 (1876) (“Courts could not, under [the act of 1836], augment the allowance made by the final decree [in actions in equity], as in the case of the verdict of a jury [in actions at law]; but the present patent act [of 1870] provides that the court shall have the same *powers to increase the decree, in its discretion*, that are given by the act to increase the damages found by verdicts in actions at law.”) (emphasis added).
- *Teese v. Huntingdon*, 64 U.S. 2, 9 (1860) (“[I]f, in the opinion of the court, the defendant has not acted in good faith, or *has caused unnecessary expense and injury to the plaintiff*, the court may render judgment for a larger sum, not exceeding three times the amount of the verdict.”) (emphasis added).
- *Dean v. Mason*, 61 U.S. 198, 203 (1858) (“Generally, [an award of lost profits] is sufficient to protect the rights of the owner; but *where the wrong has been done, under aggravated circumstances*, the court has the power, under the statute, to punish it adequately, by an increase of the damages.”) (emphasis added).
- *Seymour v. McCormick*, 57 U.S. 480, 488-89 (1853) (“The power to inflict vindictive or punitive damages is committed to the *discretion and judgment of the court* within the limit of trebling the actual damages found by the jury.”) (emphasis added).
- *Day v. Woodworth*, 54 U.S. 363, 372 (1851) (“[I]f, in the opinion of the court, the defendant has not acted in good faith, or has been *stubbornly litigious, or has caused unnecessary expense and trouble to the plaintiff*, the court may increase the amount of the verdict, to the extent of trebling it.”) (emphases added).

Discerning Guideposts from the Old Cases

The 19th century Supreme Court cases lay out the following guideposts for deciding whether to enhance damages in patent cases.

1. Loss of customers or market share

In *Topliff v. Topliff*, 145 U.S. 156, 174 (1892), the defendant, formerly “a travelling sales agent of the plaintiffs,” “in 1882 opened a rival establishment, and began the infringement of [plaintiffs’] patents.” The defendant “made serious inroads upon [plaintiffs’] business” and “sold almost exclusively to those who had formerly been customers of the plaintiffs.” *Id.* “Under these circumstances,” the Court explained, “we should not have disturbed the decree of the court below, if it had seen fit to increase the damages.” *Id.* Importantly, the Court would have upheld the increased

damages, despite the existence of an objectively reasonable invalidity defense: “the question of patentable novelty,” according to the Court, “is by *no means free from doubt*.” *Id.* at 164 (emphasis added). Nor was there any evidence that the defendant *knew* of the patents, which plaintiffs acquired in 1884—two years after the defendant left the plaintiffs’ employ. *Id.* at 172. Therefore, in the Court’s view, neither the defendant’s knowledge of the patent, nor the absence of a reasonable defense, would have been preconditions for enhancing damages in this case.

2. Failure to act in good faith

Twice the Court has stated that enhancement of damages is appropriate if “the defendant has not acted in good faith.” *Teese v. Huntingdon*, 64 U.S. 2, 9 (1860); *Day v. Woodworth*, 54 U.S. 363, 372 (1851). See WALKER, *supra*, § 567 (same).

An obvious example of “not acting in good faith” is ignoring a patent owner’s reasonable licensing offer, or delaying licensing negotiations in the hope that the patent owner will give up. See Chien, *supra*, at R5 (finding that “many companies resolve threats by simply filing them away,” and recommending that companies “plead poverty” to convince the patent owner to go away).

Pleading poverty falsely, resisting the disclosure of financial information, and structuring a business to ensure that one’s profits are beyond reach, are all indicia that the infringer has “not acted in good faith.” See *Consolidated Rubber Tire Co. v. Diamond Rubber Co.*, 226 F. 455, 465 (D.N.Y. 1915) (Hand, J.) (enhancing patent damages by \$50,000 due to the following factors: “[t]he organization of the Diamond Company of New York, its dissolution at the very expiration of the patent, the assuring that it should by no change have any profits to reach, the efforts to resist the disclosure of the Ohio Company’s books, the deviousness throughout of its persistent effort to suck the value from the invention and not pay the price”).

3. Unnecessary expense, injury, or trouble

Twice the Court has said that enhancement of damages is appropriate if the “expense,” “injury,” or “trouble” caused by the infringer was “*unnecessary*.” *Teese*, 64 U.S. at 9 (emphasis added); *Day*, 54 U.S. at 372 (emphasis added). See WALKER, *supra*, § 567 (same).

Certainly, some fraction of patent infringement lawsuits today are an unnecessary burden on the courts, because a reasonable person in the infringer’s position would have taken precautions, such as licensing or designing-around the patent, instead of proceeding headlong with its infringement. Cf. RESTATEMENT (THIRD) OF TORTS: PHYS. & EMOT. HARM, § 2

(2010) (“A person acts recklessly in engaging in conduct if: (a) the person knows of the risk of harm created by the conduct or knows facts that make the risk obvious to another in the person’s situation, and (b) the *precaution that would eliminate or reduce the risk involves burdens that are so slight relative to the magnitude of the risk* as to render the person’s failure to adopt the precaution a demonstration of the person’s indifference to the risk.”) (emphasis added).

In this regard, an infringer’s failure to obtain an opinion of counsel is relevant, not to show that the infringement was “willful” (which is disallowed under 35 U.S.C. § 298), but to show that the “expense,” “injury” or “trouble” to the patent owner and court was avoidable and “unnecessary” under *Teese and Day*.

4. Any special inconvenience

In *Clark v. Wooster*, 119 U.S. 322, 326 (1886), the Court explained that “*any special inconvenience*” suffered by the plaintiff—apart from the ordinary “expense and trouble the plaintiff has been put to”—is properly the subject of “allowance by the court under the authority given to it to increase the damages.” (emphasis added). Examples of “special inconveniences” may include out-of-court expenses and opportunity costs, such as business deals and productive work that the patent owner otherwise would have been pursued with the resources that it spent chasing down the recalcitrant infringer. Roger Smeets, *Hoisted By Your Own Petard: The Opportunity Cost Of Inventor Persistence In Patent Litigation*, ACAD. MGMT. PROC. (Jan. 2015) (finding, based on a sample of 285 serial inventor-patent owners, that patent litigation redirects resources and attention away from subsequent invention).

5. Stubbornly litigious infringer

The Court in *Day v. Woodworth*, 54 U.S. 363, 372 (1851) explained that enhancing damages is appropriate against a defendant who “has been stubbornly litigious.” Large infringers, in particular, may try to exploit their asymmetric financial position against a small inventor by burying the plaintiff-inventor in litigation costs. *See, e.g., Kellogg v. Nike, Inc.*, 2009 U.S. Dist. LEXIS 90432, *35 (D. Neb. Sept. 30, 2009) (“The court finds that Nike’s conduct in asserting and pursuing the claim of invalidity was frivolous and was intended to delay the proceedings, obfuscate the issues and increase [individual inventor] Kellogg’s costs of litigation.”); Stephen H. Haber & Seth H. Werfel, *Why Do Inventors Sell to Patent Trolls? Experimental Evidence for the Asymmetry Hypothesis*, Hoover IP² Working Paper No. 15009 (Jan. 23, 2015) (experimentally confirming that “asymmetry in financial resources between individual patent holders and manufacturers prevents individuals from making a credible threat to litigate against infringement”).