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Case Alerts

October 20, 2015

The Supreme Court Grants *Certiorari* to Review the Standards for Recovery of Enhanced Patent Damages

On October 19, 2015, the United States Supreme Court granted petitions for writs of *certiorari* in two cases regarding the standard for enhanced damages in patent cases pursuant to 35 U.S.C. § 284: *Stryker Corp. v. Zimmer, Inc.*, No. 14-1520 and *Halo Electronics, Inc. v. Pulse Electronics, Inc.*, No. 14-1513. The cases have been consolidated with a total of one hour allotted for oral argument.

Background

Upon a finding of patent infringement, the claimant patentee by statute is to be awarded damages adequate to compensate for the infringement. 35 U.S.C. § 284. In addition, the statute goes on to state that "the court may increase the damages up to three times the amount found or assessed." Section 284 itself provides no conditions on when such increased damages may be awarded.

In 2007, the Federal Circuit confirmed that a finding of willful infringement is a prerequisite to an enhanced damages award. *In re Seagate Tech., LLC*, 497 F.3d 1360, 1368 (Fed. Cir. 2007) (*en banc*). Further, to prove willful infringement, the Federal Circuit held that a prevailing party is required to establish by clear and convincing evidence that: (1) the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent (objective prong); and (2) the objectively-defined risk was either known or so obvious that it should have been known to the accused infringer (subjective prong). *Id.* at 1371. Lastly, the Federal Circuit held that the objective prong ((1) above) is a question of law subject to *de novo* appellate review. *Bard Peripheral Vascular, Inc. v. W.L. Gore & Assoc., Inc.*, 682 F.3d 1003, 1005 (Fed. Cir. 2012).

Separate and apart from the ability to increase damages, the patent statute permits courts to award reasonable attorney fees in "exceptional cases." 35 U.S.C. § 285. In April 2014, the Supreme Court overturned three aspects of prior Federal Circuit law on when an award of attorney fees was appropriate:

- First, in *Octane Fitness, LLC v. Icon Health Fitness, Inc.*, 134 S. Ct. 1749, 1758 (2014), the Supreme Court lowered the evidentiary standard applicable to proving a case "exceptional" under 35 U.S.C. § 285 to a preponderance of the evidence, instead of the clear and convincing standard that the Federal Circuit previously required.

- Second, the Supreme Court in *Octane* rejected the Federal Circuit’s test for when a case was “exceptional.” *Id.* at 1756-58. Previously, in the absence of litigation or prosecution misconduct, the Federal Circuit required the prevailing party to prove that the suit was both: (1) objectively baseless and (2) brought in subjective bad faith. *Id.* at 1752-53 (citing *Brooks Furniture Mfg., Inc. v. Dutailier Int’l, Inc.*, 393 F.3d 1378 (Fed. Cir. 2005)). The Supreme Court determined that the Federal Circuit’s framework was too rigid and impermissibly encumbered the discretion of district courts, requiring instead a totality of the circumstances analysis. *Id.* at 1756-58.
- Third, in another case argued and decided the same day, *Highmark Inc. v. Allcare Health Mgmt. Sys., Inc.*, 134 S. Ct. 1744, 1749 (2014), the Supreme Court held that awards of attorney fees should be reviewed on appeal for an abuse of discretion, overturning the Federal Circuit’s previous application of *de novo* review.

The *Octane* and *Highmark* decisions have accordingly given rise to a question about whether the Federal Circuit’s standards for an enhanced damages award, as per *In re Seagate*, should be revisited as well. The Supreme Court’s grant of *certiorari* in the *Stryker* and *Halo* cases suggests that the answer is yes.

Stryker Corp. v. Zimmer, Inc.

Stryker Corp. *et al.* (“Stryker”) asserted infringement by Zimmer, Inc. *et al.* (“Zimmer”) of three patents concerning portable, battery-powered pulsed lavage devices, which deliver pressurized irrigation for certain medical therapies. The United States District Court for the Western District of Michigan granted summary judgment of infringement of two patents, and a jury subsequently found infringement of the third patent, that all patents-in-suit were valid, and that infringement of the three patents was willful. The district court denied various motions by Zimmer for judgment as a matter of law and entered judgment of willful infringement, awarding treble damages and attorney fees for exceptional case.

The *Octane* and *Highmark* decisions were issued after appellate briefing in *Stryker* was complete, but before oral argument. Stryker’s request for supplemental briefing was denied.

In its *Stryker* opinion, a panel of the Federal Circuit affirmed the findings of infringement and validity for all patents-in-suit, but reversed the district court’s determination of willful infringement on *de novo* review, because the district court failed to undertake the necessary objective assessment of Zimmer’s defenses under the *Seagate* standard for willfulness. The Federal Circuit found that Zimmer presented reasonable defenses to all of the asserted claims, and therefore Zimmer’s actions did not meet the objective recklessness prong. The award of trebled damages was therefore vacated.

Stryker’s petition for rehearing *en banc* was also denied, but the Federal Circuit panel issued a revised opinion with a footnote stating that although the court had not yet addressed whether the Supreme Court decisions of *Octane* or *Highmark* altered the standard of review for willfulness, the district court erred under any standard of review. Following this, Stryker’s petition for a writ of *certiorari* was granted in full.

Halo Electronics, Inc. v. Pulse Electronics, Inc.

Halo Electronics, Inc. (“Halo”) asserted infringement by Pulse Electronics, Inc. *et al.* (“Pulse”) of three patents concerning surface mount electronic packages that contain transformers for mounting on a printed circuit board. A jury found, *inter alia*, certain claims were directly infringed, the claims were not invalid for obviousness, and that it was “highly probable” that the infringement was willful. The United States District Court for the District

of Nevada concluded that the objective component of willfulness was not satisfied because Pulse reasonably relied on its obviousness defense.

The *Octane* and *Highmark* decisions were issued a few weeks before reply appeal briefs were filed in *Halo*.

In a panel opinion by Judge Lourie, the Federal Circuit affirmed the district court's finding of no willfulness because the record showed that Pulse raised a substantial question as to the obviousness of the patents. Judge O'Malley filed a concurrence joined by Judge Hughes writing separately to note that "it is time for the full court to reevaluate our standard for the imposition of enhanced damages in light of" *Octane*, *Highmark*, and "the terms of the governing statutory provision 35 U.S.C. § 284 (2012)." The concurrence noted that the *Seagate* test is analogous to the test the court prescribed for awards of attorney fees under § 285 that was overruled by *Octane*. The concurrence questioned whether the flexible test required by the Supreme Court in *Octane* would be appropriate for enhanced damages, whether a preponderance of the evidence standard should apply instead of clear and convincing evidence, and whether *de novo* appellate review is appropriate.

Halo and Pulse filed petitions for rehearing *en banc*, which were denied. Following this, Halo's petition for a writ of *certiorari* was granted with respect to § 284 and denied in part. Pulse's cross petition for a writ of *certiorari* regarding obviousness was denied.

The Supreme Court's Review

In granting the petitions for writs of *certiorari* in the *Stryker* and *Halo* cases, the Supreme Court indicates that it will be reviewing whether the Federal Circuit is correct in continuing to predicate any award of enhanced damages under 35 U.S.C. § 284 on a finding of willfulness as determined in accordance with its two-part *Seagate* test, given the Supreme Court's rejection in the *Octane* and *Highmark* cases of an arguably analogous framework for awarding attorney fees in exceptional cases under 35 U.S.C. § 285.

The Supreme Court's decisions in *Stryker* and *Halo* may have important consequences for patentees that are unable to meet the requirements of *Seagate*. Oral argument may provide early clues as to the Court's thinking.

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