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Paying More in Patent Damages a Puzzle Ready for High Court

By Matthew Bultman

Deep Dive
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- Confusions linger over enhanced damages in patent cases
- Cisco petitioned Supreme Court, judges detail splits in rulings

Comcast Corp. is telling the Supreme Court that enhanced patent damages are becoming "detached from their intended function," highlighting the lingering legal muddle over such awards.

Six years after the high court in *Halo Electronics Inc. v. Pulse Electronics Inc.* shifted the landscape for finding willful infringement and awarding enhanced damages in patent cases, confusion persists over questions underpinning such awards.

Cisco Systems Inc., backed by Comcast, recently asked the justices to revisit the issue, as it tries to rid itself of nearly $24 million in enhanced damages. The nation's top court is scheduled to consider granting or denying the petition at a May 12 conference.

Cisco wants the Supreme Court to explain whether enhanced damages can be awarded in the absence of egregious patent infringement behavior. Lower courts have disagreed on other key questions, including whether alleged willful infringers must know about a patent before a lawsuit is filed.

Without more direction from the high court and the U.S. Court of Appeals for the Federal Circuit, companies say it's unclear what conduct would leave them exposed to enhanced damages, which can climb to three times the initial award. The Supreme Court's 2016 *Halo* decision struck down the Federal Circuit's test for willful infringement, finding it too rigid.

"It would be helpful to have some further guidance at this point," said Tom Cotter, a law professor at the University of Minnesota Law School. "We've had enough confusion that it would be helpful to resolve some of these things."

Infringers, Pirates

Findings of willful infringement have jumped almost 28% since *Halo*, according to a recent study by Willamette University College of Law professor Karen Sandrik. At the same time, enhanced damage awards are up less than 9%.

The reason more willfulness findings haven't translated into enhanced damages awards lies with the judge's discretion, attorneys and legal scholars say.

District court judges decide how much to increase damages, if at all, following a willfulness finding. The view has been that *Halo* requires drawing lines between run-of-the-mill infringement and egregious behavior—or, as the Supreme Court said, actions "characteristic of a pirate."

District court judges are "pretty good at understanding the difference between those behaviors," Sandrik said.

But Cisco told the Supreme Court, in its recent petition for review, that the Federal Circuit muddied the equation when it reinstated enhanced damages against it in a dispute with SRI International Inc.

The Federal Circuit said the increase was supported by, among other things, "Cisco's litigation conduct" and its "status as the world's largest networking company." Cisco argues those things should have nothing to do with enhancement of damages.

Comcast, in an amicus brief filed April 18 supporting Cisco, argued the purpose of enhanced damages is to punish "egregious infringement." Litigation strategy, Comcast says, should be irrelevant.

"It's probably best if somebody clarifies the test," said Blair Jacobs, an attorney at McKool Smith in Washington.

Putting on Notice

To obtain enhanced damages based on willful infringement, a patent owner must show the defendant knew about the patent.

A question district courts can't seem to agree on is: Must a defendant know about the patent before the suit is filed? Or is the complaint enough to put them on notice?

Judge William Alsup in the U.S. District Court for the Northern District of California detailed the split in a ruling last month involving Google LLC and Sonos Inc.

Alsup came down on the side of generally not allowing complaints to serve as notice. Other judges have said a complaint can supply the knowledge required for willfulness once the defendant company has a chance to evaluate the complaint's allegations.

Despite the divide among district courts, the Federal Circuit has "steadfastly refused" to address the issue, NetScout Systems Inc. told the Supreme Court in a separate case seeking review. The petition, which took issue with a $2.8 million damages enhancement in a fight related to computer network technology, was denied last year.

"A decision one way or the other would be really helpful to all the decision makers trying to operate in the patent space," said Ken Parker, an attorney at Haynes and Boone LLP in Southern California. "You don't want your rule to be venue dependent."

The issue can impact strategies. Alsup, for example, worried that allowing a complaint to serve as notice could circumvent the "worthwhile practice" of patent owners sending cease-and-desist letters before suing.

And as long as there remains a divide, it can impact patent owners' decisions on where to sue. The Eastern District of Texas is one court that, unlike Alsup, has allowed willfulness-based enhanced damages claims based on post-suit knowledge.

"If you're a patent owner that might be a better district to [sue in], rather than say, the Northern District of California if you hadn't sent out a warning letter before filing the complaint," said Robert Sloss, an attorney at Procopio Cory Hargreaves & Savitch LLP in Palo Alto, Calif.

Head in the Sand

There is also a question of how to deal with the companies accused of sticking their heads in the sand, ignoring patents and letters that allege infringement.

In East Texas, Judge Rodney Gilstrap allowed a willful infringement claim against HTC Corp. to survive a motion to dismiss based on an alleged policy of not reviewing other people's patents. Gilstrap said such alleged willful blindness was a substitute for actual knowledge.

A judge in Delaware, however, tossed a claim for enhanced damages against Intel Corp. that was based on a similar alleged policy.

"That is also something of a live issue—whether willful blindness or something short of literal intent to infringe can substitute for intentional, willful infringement," Cotter said.

Where ignorance has come back to bite companies is when judges are deciding whether to enhance damages. Sandrik noted a company was dinged in New York federal court for "ostrich-like, head-in-the-sand behavior" after it was informed of alleged infringement but didn't investigate it.

It's not possible for large companies to search all patents or respond to every infringement letter. But Sandrik suggested a well thought-out policy is important.

"Those are the ones that the courts are really nailing right now—the ones that don't have an intentional strategy," Sandrik said.

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