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Expert Analysis

Willful Infringement, Damages And Attorney Fees in Patent Cases

By **Lewis R. Clayton**

And **Eric Alan Stone**

Enhanced damages in patent cases have been the subject of two recent Supreme Court cases, one addressing the award of attorney fees in "exceptional cases" under 35 U.S.C. §285, see *Octane Fitness v. ICON Health and Fitness*, 134 S. Ct. 1749 (2014), and the other addressing up-to-treble enhanced damages under the so-called "willfulness" provision, 35 U.S.C. §284, see *Halo Elecs. v. Pulse Elecs.*, 136 S. Ct. 1923 (2016). In both cases, the Supreme Court vacated "unduly rigid" U.S. Court of Appeals for the Federal Circuit tests, and instead committed the inquiries to the district courts' discretion.

Here, after a brief review of the law, we report on how the district courts have applied Sections 284 and 285 after *Octane Fitness* and *Halo*, offering suggestions for practitioners.

Sections 285 and 284

Section 285 provides that, "The court in exceptional cases may award reasonable attorney fees to the prevailing party." In *Octane Fitness*, the court held that a case being "exceptional" is the only requirement for the imposition of fees, and that district court judges can recognize exceptional cases from their own experience. See 134 S. Ct. at 1755.

Section 284 provides that, "The court may increase the damages up to three times the amount found or assessed."

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In *Halo*, the court committed the decision to enhance damages to the district court's discretion, stating that district courts can recognize "egregious" cases and specifically noting that "subjective bad faith alone" may warrant enhanced damages, 136 S.Ct. at 1933, which the Federal Circuit had previously found insufficient.

One trend that has emerged in applying these new cases is that courts are using the same types of conduct to support both damages enhancement under Section 284 and attorney fee awards under Section 285. Indeed, courts have expressly tied the analyses together. Thus, an Eastern District of Texas court in June held that a finding of willful infringement is itself "a compelling indication" that a case is also exceptional and thus deserving of an attorney fee award, and relied on overlapping facts to support awards under both Section 284 and 285. *Georgetown Rail Equip. v. Holland*, No. 6:13-CV-366, 2016 WL 3346084, at *22 (E.D. Tex. June 16, 2016).

Likewise, in *AAT Bioquest v. Tex. Fluorescence Labs*, the court first found that infringement was willful and awarded enhanced damages and then, relying on the same evidence, declared the case "exceptional" and awarded attorney fees as well. See No. 14-cv-03909-DMR, 2015 WL 7708332, at *15–16 (N.D. Cal. Nov. 30, 2015). And in *Ultimate Combustion Co. v. Fuecotech*, the court's determination that the case was exceptional and deserving of a fee award rested, in part, on the court's conclusion that "the record establishes that the defendants' infringing conduct was knowing

LEWIS R. CLAYTON *and* ERIC ALAN STONE *are litigation partners at Paul, Weiss, Rifkind, Wharton & Garrison.* MICHAEL F. MILEA, *an associate at the firm, assisted in the preparation of this column.*

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and willful." No. 12-60545-civ (S.D. Fla. June 4, 2014).

Facts and Cases

Clients often ask for advice about what conduct can make them a willful infringer, or make a case "exceptional." While the analysis is always case-specific, recent decisions have focused on these facts, which—in various combinations—have supported both willfulness enhancements and attorney fee awards:

- Relying on opinions of counsel that turned out to be incorrect;
- Presenting unreasonable and meritless defenses;
- Selling accused products despite knowing that the products infringe;
- Continuing to sell infringing products after the patents were found infringed and not invalid;
- Failing to attempt to design around the patents-in-suit;
- Accessing confidential information of the patentee through a business or employment relationship, and then using that confidential information to develop the infringing products;
- Engaging in discovery-related and other litigation misconduct.

For example, in *Imperium IP Holdings (Cayman) v. Samsung Electronics*, the infringer used its business relationship with the patentee's predecessor-in-interest to obtain confidential information, and then used that confidential information to develop the infringing products. Furthermore, despite knowing about the patents, the infringer did not undertake a serious investigation to form a good-faith belief as to the non-infringement or invalidity of those patents. And the infringer presented false testimony, failed to produce relevant documents, and made multiple, material misrepresentations to the court. See No. 4:14-cv-371, 2016 WL 4480542, at *6 (E.D. Tex. Aug. 24, 2016).

The Federal Circuit recently affirmed an enhanced-damages award in a case in which the district court had also awarded attorney fees, where the infringer knew about the patents-in-suit at the time of infringement, engaged in the copying of the patentee's invention, and engaged in litigation misconduct including failing to make witnesses available at trial. See *WBIP v. Kohler,* No. 2015-0138, 2016 WL 3902668, at *16 (Fed. Cir. July 19, 2016); *WBIP v. Kohler*, No. 11-10374-NMG, 2014 WL 585854 (D. Mass. Feb. 12, 2014).

There are, however, far more cases denying attorney fees and willfulness enhancement than there are cases granting those sanctions. That is to be expected, given the Supreme Court's instruction that attorney fees are available only in "exceptional" cases and damages enhancement only in "egregious" ones. Indeed, courts have refused to enhance damages or award fees even where juries have found that the infringement was willful.

For example, in *Presidio Components v. Am. Tech. Ceramics Corp.*, the court declined to enhance damages or award attorney fees even though the jury had found that the plaintiff's infringement was willful and even though the court concluded that finding was supported by substantial evidence. The facts supporting enhancement and a fee award included that the designer of the infringing product knew about the patent, that the infringer promoted its product as a replacement for another product that had itself been found to infringe, and that the infringer brought three unsuccessful re-examination proceedings challenging the patent. See No. 14-cv-02061-H-BGS, 2016 WL 4377096 (S.D. Cal. Aug. 17, 2016).

The court nevertheless concluded that enhanced damages were not warranted, in part because the infringer had reasonable non-infringement and validity defenses. See id. at *21. The court also denied attorney fees, noting the lack of bad faith or litigation misconduct by the infringer, and concluding that this was simply "a garden-variety hard-fought patent infringement action between two competitors." Id. at *22.

Likewise, in *Enplas Display Device Corp. v. Seoul Semiconductor Co.*, the court declined to enhance damages or award attorney fees despite a jury finding that the accused infringer had willfully infringed two patents covering technology for backlighting a display. No. 13-cv-05038 NC, 2016 WL 4208236 (N.D. Cal. Aug. 10, 2016). The court found that enhanced damages were inappropriate because the case was "hard fought and a close call," noting that the infringer advanced several reasonable invalidity theories, that the patent holder itself had dropped several allegedly infringing products from the lawsuit, and that the jury had already awarded the full amount of damages calculated by the plaintiff's damages expert. The court also denied attorney fees, finding that the case was not "exceptional" given that it was a "close call" and given the strength of the invalidity theories advanced by the infringer. See id. at *9.

Conclusion

The guideposts in the cases thus far seem—perhaps unsurprisingly—to be candor to the court, candor to the adversary, and a good-faith effort to avoid the known possibility of infringement. Acts of deception, or a belief that what one is doing is improper, thus far seem to be the strongest predictor of damages enhancement or fee awards. How is a lawyer supposed to identify this behavior and attempt to counsel the client to change it? Perhaps, the Supreme Court expects lawyers, like district court judges, to know egregious misconduct when we see it.

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