

PATENT LAW DAMAGES: DEFINING AN
INTELLIGIBLE STANDARD BETWEEN ATTORNEY'S
FEES AND TREBLE DAMAGES

While the United States generally operates on a pay-your-own-way system that avoids punitive awards, current patent law standards seem to fly in the face of this general scheme. Following the ground-shaking cases of Octane Fitness and Halo, patent law now allows awards of both treble damages and attorney's fees after a mere showing of conduct akin to negligence. Defendants can be threatened with both of these crippling enhanced awards based on a totality of the circumstances showing of objective evidence. Moreover, awards of up to treble damages and attorney's fees are left entirely to the discretion of the trial judge—meaning that a successful appeal of a crippling double sanction is unlikely. Given patent law's departure from the traditional enhanced damages scheme and willingness to sanction conduct approaching mere negligence, a differentiation must be made between situations calling for treble damages and those calling for attorney's fees in order to avoid the draconian remedy of sanctioning the same conduct twice.

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I. INTRODUCTION

The realm of enhanced damages in patent law has drastically changed over time. Since the original Patent Act of 1793, treble damages awards have been permitted in patent infringement suits.¹ Then in 1946, Congress added an optional award of attorney’s fees to the existing treble damages option.² While tripling damages can have a chilling effect on those in the industry, the addition of attorney’s fees brought another level of financial ruin—especially as litigation costs have skyrocketed in the patent realm.³

Since the addition of attorney’s fees to the patent damages framework, courts have struggled to set forth a test that determines when treble damages, as opposed to attorney’s fees, should be granted.⁴ Because treble damages already served to punish bad faith infringers, it seems self-evident that the addition of attorney’s fees awards was an attempt to offer redress for frivolous or abusive lawsuits. Without such a distinction, Congress would have been equally served by increasing treble damages to quadruple or quintuple damages. Thus, it is surprising to find that, historically,

1. See Patent Act of 1793, ch. 11, § 5, 1 Stat. 322 (repealed 1836); *Halo Elecs., Inc. v. Pulse Elecs., Inc.*, 136 S. Ct. 1923, 1928 (2016).

2. 35 U.S.C. § 285 (2018).

3. See Saurabh Vishnubhakat, *What Patent Attorney Fee Awards Really Look Like*, 63 DUKE L.J. ONLINE 15, 25 (2014) (describing the high risk that attorney’s fees awards can bring to litigants).

4. Compare *Brooks Furniture Mfg., Inc. v. Dutailier Int’l, Inc.*, 393 F.3d 1378, 1381 (Fed. Cir. 2005) (holding that attorney’s fees can be awarded when there has been “some material inappropriate conduct” or when the litigation is “brought in subjective bad faith” and is “objectively baseless”), with *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 572 U.S. 545, 548 (2014) (holding the framework established in *Brooks Furniture* is inconsistent with the text of § 285).

plaintiffs have been most successful in receiving attorney's fees awards for conduct that is simultaneously sanctionable by treble damages.⁵ This anomaly was subdued by Federal Circuit holdings that issued an exceptionally high bar for awarding both attorney's fees and trebled damages (referred to interchangeably as "enhanced damages").⁶ Under the Federal Circuit's framework, attorney's fees and treble damages awards required a showing that an objective person would believe the position was baseless and the party subjectively acted in bad faith. This standard only exposed the most culpable defendants to the threat of being sanctioned twice for willful conduct.⁷

However, the Supreme Court effectively reversed the Federal Circuit's high bar for enhanced damages awards in *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*⁸ and *Halo Electronics, Inc. v. Pulse Electronics, Inc.*⁹ District courts are now left with the discretion to award treble damages in egregious circumstances and attorney's fees in exceptional cases.¹⁰ The grant of either or both forms of enhanced damages is within the discretion of the trial judge based on the totality of the circumstances.¹¹ This presents the question of whether a meaningful difference still exists between these discretionary enhanced damages decisions. Moreover, while plaintiffs are more likely to be held accountable for bringing frivolous suits, has the new standard also enticed plaintiffs to bring suits because it is easier to allege treble damages and attorney's fees?

This Note will examine the interplay between treble damages and attorney's fees. First, this Note will explore the history behind these damages awards and how courts have formulated their standards over time. Next, this Note will address the state of the law after *Octane Fitness* and *Halo*, demonstrating how the change in law has exposed defendants to a crippling new level of potential liability. Finally, this Note will argue for changes to the framework in order to

5. See Darin Jones, *A Shifting Landscape for Shifting Fees: Attorney-Fee Awards in Patent Suits After Octane and Highmark*, 90 WASH. L. REV. 505, 527 (2015) (describing the shift from predominantly plaintiffs receiving attorney's fees awards to more defendants winning such awards).

6. See *In re Seagate Tech., LLC*, 497 F.3d 1360, 1368–69 (Fed. Cir. 2007); *Brooks Furniture*, 393 F.3d at 1381.

7. *Brooks Furniture*, 393 F.3d at 1381.

8. 572 U.S. 545 (2014).

9. 136 S. Ct. 1923 (2016).

10. See *Halo*, 136 S. Ct. at 1931–32; *Octane Fitness*, 572 U.S. at 549, 554. It should be noted, however, that the Supreme Court in *Halo* stated that treble damages should usually be reserved for egregious circumstances. Accordingly, the trial judge's discretion to grant treble damages is not limited by the egregious term—merely "exceptional" conduct could support both sanctioning an infringer twice. See *infra* Subpart III.B.

11. *Halo*, 136 S. Ct. at 1933; *Octane Fitness*, 572 U.S. at 554.

strike an even balance between protecting patent rights and promoting the free flow and public use of inventions.

II. ENHANCED DAMAGES: AN ANOMALY IN AMERICAN JURISPRUDENCE

A discussion of enhanced damages would not be complete without first analyzing the background of enhanced damages in American law. Until recent developments in the tort law context, American jurisprudence has typically avoided enhanced damages and punitive awards, opting instead for a pay-your-own-way scheme that provides awards of actual monetary damages.¹² However, patent law is a unique exception to this general rule, having had an option for punitive awards since its inception in the eighteenth century.¹³ In fact, the original Patent Act mandated treble damages, a harsher result than today's system that allows up to treble damages at the discretion of the trial judge.¹⁴

Tracing treble damages back to the 1836 Patent Act, the Supreme Court deemed that awards were reserved for situations of “wanton and malicious” conduct.¹⁵ Such “wanton and malicious” conduct could be described to extend past willful infringement to improper conduct in competition or litigation. Subsequently, courts adopted the term “willfulness” to describe situations where treble damages were warranted.¹⁶ Willfulness was described as deliberate and wanton infringement—akin to piracy.¹⁷ Accordingly, the willfulness requirement cabined courts' discretion to situations where a defendant knowingly infringed.¹⁸

By 1946, the US patent system had grown immensely,¹⁹ presenting a new set of challenges. As the system grew, so did the costs of bringing an action.²⁰ Moreover, patent owners recognized the

12. Dmirty Karshtedt, *Enhancing Patent Damages*, 51 U.C. DAVIS L. REV. 1427, 1489 (2018) (explaining that enhanced damages are typically avoided in the civil context in American jurisprudence).

13. See Patent Act of 1793, ch. 11, § 5, 1 Stat. 322 (repealed 1836).

14. *Id.*; 35 U.S.C. § 284 (2018).

15. *Seymour v. McCormick*, 57 U.S. 480, 488–89 (1853).

16. *E.g.*, *Power Specialty Co. v. Conn. Light & Power Co.*, 80 F.2d 874, 875 (2d Cir. 1936); *Baseball Display Co. v. Star Ballplayer Co.*, 35 F.2d 1, 4 (3d Cir. 1929); *Brown Bag Filling Mach. Co. v. Drohen*, 175 F. 576, 577 (2d Cir. 1910) (explaining that treble damages require wanton acts akin to piracy, which was later coined as willfulness).

17. *Power Specialty Co.*, 80 F.2d at 878; *Drohen*, 175 F. at 577.

18. *Halo Elecs., Inc. v. Pulse Elecs., Inc.*, 136 S. Ct. 1923, 1934 (2016).

19. John M. Golden, *Proliferating Patents and Patent Law's "Cost Disease"*, 51 HOUS. L. REV. 455, 464 (2013).

20. *Cf. Park-In-Theatres, Inc. v. Perkins*, 190 F.2d 137, 142 (9th Cir. 1951) (explaining the gross injustice that would occur from a party having to bear its own attorney's fees).

value of bringing a patent enforcement action that threatened their competitors with up to treble damages.²¹ As concerns of abuse developed, Congress saw fit to introduce a new statute aimed at alleviating problems of litigation misconduct. Unlike treble damages awards, Congress intended to make this award “general so as to enable the court to prevent a gross injustice to an alleged infringer.”²²

In practice, courts treated the option to award attorney’s fees as a discretionary option “to prevent a gross injustice.”²³ The injustices courts often pointed to were fraud on the patent office, willful infringement, bad faith litigation, and maintaining untenable legal or factual theories.²⁴ In 1952, Congress amended the 1946 language to state that attorney’s fees may be awarded in exceptional cases.²⁵ The legislative history suggests that Congress was providing a nod of approval to courts’ interpretation of the statute.²⁶ Specifically, a Senate report stated that the statute was “substantially the same” and the term “exceptional” was only added to express “the intention of the present [1946] statute as shown by its legislative history and as interpreted by the courts.”²⁷

Given the departure of patent law from traditional standards, it is important that these awards be granted in light of their purpose: to punish blameworthy behaviors or practices. As the standard for these awards degrades, the justification for punishment ceases to exist. Instead of acting to punish clearly wrongful behavior, these punishments can be applied merely at the discretion of the trial judge. Thus, litigants can be slapped with numbing punitive awards for conduct they did not know was blameworthy. This risk can create a chilling effect on the progress of arts and sciences.

21. See S. REP. NO. 79-1503, at 2 (1946).

22. *Id.*

23. *Pa. Crusher Co. v. Bethlehem Steel Co.*, 193 F.2d 445, 450–51 (3d Cir. 1951); see also *Dubil v. Rayford Camp & Co.*, 184 F.2d 899, 902–03 (9th Cir. 1950) (noting that Congress granted the trial court with discretionary power to award attorney’s fees).

24. Jennifer H. Wu & Jenny C. Wu, *Giving Teeth to 35 U.S.C. § 285*, FED. LAW., Jan.–Feb. 2015, at 46.

25. *Id.*

26. Brief for the United States as Amicus Curiae Supporting Petitioner at 14–15, *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 572 U.S. 545 (2014) (No. 12-1184); Wu & Wu, *supra* note 24, at 46.

27. Brief for the United States as Amicus Curiae Supporting Petitioner, *supra* note 26, at 14 (quoting S. REP. NO. 82-1979, at 5 (1952)).

III. THE SUPREME COURT'S ATTACK ON ENHANCED DAMAGES STANDARDS HAS LEFT COURTS WITHOUT GUIDANCE

A. *Section 285 Attorney Fees*

35 U.S.C. § 285 (“Section 285”) states that attorney’s fees may be awarded “in exceptional cases . . . to the prevailing party.”²⁸ This approach—fee shifting—was developed as a method to deter nuisance lawsuits.²⁹ This is a dramatic shift from the traditional American rule, which avoids awards of attorney’s fees because they can lead to abuse and excessive fee allocations to attorneys.³⁰ Patent law followed this traditional rule until the enactment of a fee-shifting provision in 1946, later codified in Section 285.³¹ Looking to the legislative history of the Patent Act of 1946, a senate report reveals that Congress did not intend Section 285 “exceptional cases” to become an ordinary occurrence.³² Instead, this report stated that attorney’s fees would be awarded to protect an alleged infringer when defending against a frivolous suit resulted in “gross injustice.”³³ It follows that the Patent Act of 1946 was targeted toward alleviating injustice to defendants because plaintiffs already had a potential to recover excess damages for bad faith infringement under 35 U.S.C. § 284 (“Section 284”).³⁴

As patent awards have grown more lucrative, so have enforcement actions from non-practicing entities (“NPEs”).³⁵ The NPE business model consists of building a portfolio of valuable patents and then licensing their use.³⁶ NPEs do not directly produce, sell, or distribute their patented invention. Instead, NPEs rely on profits derived through licensing agreements with the parties that do produce and sell the NPEs’ patented inventions.³⁷ As a result, a major part of the NPE model is bringing patent infringement suits to

28. 35 U.S.C. § 285 (2018).

29. Hannah Jiam, Comment, *Fee-Shifting and Octane Fitness: An Empirical Approach Toward Understanding “Exceptional,”* 30 BERKELEY TECH. L.J. 611, 612–13 (2015).

30. *Id.* at 613.

31. 35 U.S.C. § 70 (1946) (indicating prior scheme of awarding attorney’s fees in patent litigation); Emily H. Chen, Note, *Making Abusers Pay: Deterring Patent Litigation by Shifting Attorneys’ Fees*, 28 BERKELEY TECH. L.J. 351, 362 (2013).

32. S. REP. NO. 79-1503, at 2 (1946) (“It is not contemplated that the recovery of attorney’s fees will become an ordinary thing in patent suits.”).

33. *Id.*

34. 35 U.S.C. § 284 (2018).

35. Jiam, *supra* note 29, at 614.

36. See Rudy Hill, *Legislation Targeting Non-Practicing Entities (NPEs) Passes in House by Comfortable Margin*, BRADLEY (Dec. 18, 2013), https://www.bradley.com/insights/publications/2013/12/legislation-targeting-nonpracticing-entities-npe__.

37. *Id.*

create and enforce these licensing and royalty agreements.³⁸ Due to the bulk number of patents owned by these companies and the number of patent infringement suits they bring every year, they are able to minimize costs through repetition, use of in-house counsel, and contingent-fee based legal services.³⁹ On the other hand, the cost of defending a patent infringement suit is very high.⁴⁰ This disparity in bargaining power is a major concern for the industry because NPEs are exposed to less risk and face no potential liability for patent counterclaims because they do not produce the products themselves.⁴¹ Due to the high costs of hourly legal fees and threats of enhanced damages, defendants will often determine that even frivolous suits brought by NPEs should be settled.⁴² This is the “gross injustice” that Section 285 should serve to remediate.

Prior to *Octane Fitness*, the Federal Circuit had implemented a number of restrictions to attorney’s fees awards.⁴³ In the case of a defendant-infringer, the Federal Circuit held a case was exceptional “when there has been some material inappropriate conduct related to the matter in litigation.”⁴⁴ This material inappropriate conduct included willful infringement.⁴⁵ On the other hand, the plaintiff was only subject to an attorney’s fees award if both “the litigation is brought in subjective bad faith, and . . . the litigation is objectively baseless.”⁴⁶ This rigid formula was highly protective of plaintiffs because it required both objective and subjective elements to be satisfied before attorney’s fees were awarded.⁴⁷ Therefore, NPEs and other patentees were not deterred by the threat of attorney’s fees when bringing infringement actions.

38. *Id.*

39. See generally Joe Mullin, *Trolls Made 2015 One of the Biggest Years Ever for Patent Lawsuits*, ARS TECHNICA (Jan. 5, 2016, 12:38 PM), <https://arstechnica.com/tech-policy/2016/01/despite-law-changes-2015-saw-a-heap-of-patent-troll-lawsuits/> (explaining how trolls are able to operate at lower costs due to less risk and the factory style operation of bringing suits, while defendants are exposed to significantly larger costs of litigation).

40. See *id.* (noting that a trial could cost up to “a few million [dollars]”).

41. See Robert P. Merges, *The Trouble with Trolls: Innovation, Rent-Seeking, and Patent Law Reform*, 24 BERKELEY TECH. L.J. 1583, 1587–88, 1599 (2009).

42. See *id.* at 1585–86.

43. See, e.g., *Brooks Furniture Mfg., Inc. v. Dutailier Int’l, Inc.*, 393 F.3d 1378, 1381–82 (Fed. Cir. 2005).

44. *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 572 U.S. 545, 550 (2014) (quoting *Brooks Furniture*, 393 F.3d at 1381); Scott M. Flanz, *Octane Fitness: The Shifting of Patent Attorneys’ Fees Moves into High Gear*, 19 STAN. TECH. L. REV. 329, 335 (2016) (quoting *Brooks Furniture*, 393 F.3d at 1381).

45. *Octane Fitness*, 572 U.S. at 550 (quoting *Brooks Furniture*, 393 F.3d at 1381); Flanz, *supra* note 44, at 335 (quoting *Brooks Furniture*, 393 F.3d at 1381).

46. *Octane Fitness*, 572 U.S. at 550 (quoting *Brooks Furniture*, 393 F.3d at 1381); Flanz, *supra* note 44, at 335 (quoting *Brooks Furniture*, 393 F.3d at 1381).

47. *Brooks Furniture*, 393 F.3d at 1381; Flanz, *supra* note 44, at 335.

When the Supreme Court granted certiorari in *Octane Fitness*, many predicted that Section 285 would become a more accessible remedy.⁴⁸ First, the industry began to define NPEs as a threat to innovation and a suppressor of patented material.⁴⁹ Additionally, a legislative effort to refine the Section 285 standard likely influenced the Supreme Court's decision.⁵⁰ The "Innovation Act" was aimed at remedying "[a]busive patent litigation [that] is a drag on our economy."⁵¹ One proposal of the act was a "loser pays provision" that would have automatically awarded attorney's fees unless the court found the non-prevailing party was reasonably justified in law or special circumstances favored excusing the conduct.⁵² Thus, when the Supreme Court reviewed the Federal Circuit's rigid standard for Section 285, there were many factors favoring a lower bar for attorney's fees awards to deter abusive litigation.

Octane Fitness answered the call by lowering the standard for an award of Section 285 attorney's fees, abrogating the *Brooks Furniture* objective and subjective exceptionality test.⁵³ Specifically, the Court held that "exceptional" should be defined by its plain meaning: "uncommon,' 'rare,' or 'not ordinary.'"⁵⁴ Therefore, an "exceptional" case is "simply one that stands out from others."⁵⁵ In applying this standard, district courts should look to the party's litigating position or the manner in which they conducted their litigation.⁵⁶ Because the Supreme Court held that this decision is to be made in light of a party's conduct, the decision to award enhanced damages was left up

48. Flanz, *supra* note 44, at 331.

49. See Mark Rawls, Note, *Fixing Notice Failure: How to Tame the Trolls and Restore Balance to the Patent System*, 5 WM. & MARY BUS. L. REV. 561, 565–66, 580–81 (2014); Mary Juetten, *Combat Your Fear of Non-Practicing Entities*, FORBES (Oct. 31, 2014, 12:00 PM), <https://www.forbes.com/sites/maryjuetten/2014/10/31/combat-your-fear-of-non-practicing-entities>.

50. See Hill, *supra* note 36.

51. *Id.* The Innovation Act was introduced by Representative Bob Goodlatte (Republican) from Virginia in October of 2013. See *Patent Progress's Guide to Federal Patent Reform Legislation*, PATENT PROGRESS, <https://www.patentprogress.org/patent-progress-legislation-guides/patent-progresss-guide-patent-reform-legislation/> (last updated Dec. 4, 2019). The Act was advertised as a solution to the NPE business model of abusive patent litigation. *Id.* The Act passed the House in December of 2013 but was never passed by the Senate. *Id.* The Senate responded with various bills aimed at curing patent litigation abuse, but none of them gained traction. *Id.* Following the *Octane Fitness* decision in 2014, the responsive bills were removed from consideration in the Senate. See *id.*

52. See Hill, *supra* note 36.

53. *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 572 U.S. 545, 554 (2014).

54. *Id.* at 553.

55. *Id.* at 554.

56. See *id.* at 554–55.

to district courts.⁵⁷ In placing discretion with district courts, the Supreme Court compared Section 285 with the Copyright Act, where there is no formula for granting attorney's fees because equitable discretion should be utilized.⁵⁸

While the new standard makes it easier to award attorney's fees for bad faith plaintiffs, including NPEs, the standard simultaneously lowers the bar for defendants.⁵⁹ Accordingly, it is easier for plaintiffs to successfully prevail in a claim for attorney's fees against innocent defendants. This approach is a vast departure from traditional justifications for enhanced awards, which attempt to punish a culpable mind, or *mens rea*, on the part of the defendant.⁶⁰ "Not ordinary," on the other hand, can open the door for an award in any number of situations, and the line between unreasonable conduct and prudent litigation fades away.⁶¹ Thus, defendants will now have to factor the increased cost of defending a Section 285 claim and the risk of an attorney's fees award into settlement decisions.

Moreover, following the 2014 *Octane Fitness* decision, the industry did not see a sharp decline in litigation brought by NPEs.⁶² Instead, 2015 saw an increase in the total number of filings before both the district courts and the Patent Trial and Appeals Board ("PTAB") compared to 2014.⁶³ More surprising, however, was that "two-thirds[] of all patent lawsuits were filed by [NPEs] That's up from 61 percent [in 2014]."⁶⁴ While the America Invents Act has promoted an increase in cases brought before the PTAB,⁶⁵ it would

57. *Id.*

58. *Id.* at 554.

59. *See id.* at 553–54 (failing to distinguish between plaintiffs and defendants in defining "exceptional cases" under Section 285).

60. *See* Catherine M. Sharkey, *Punitive Damages as Societal Damages*, 113 YALE L.J. 347, 357 (2003). Given the goal of punitive damages to right a societal wrong and deter future actions, it seems odd that these awards are often used as leverage to force settlements and strategically enhance recovery. *See id.*

61. Lionel M. Lavenue, et. al., *Making the Nonprevailing Party Pay: The Statistics of Exceptional Cases Two Years After Octane and Highmark*, LANDSLIDE, Jul./Aug. 2016, at 27, 30.

62. Mullin, *supra* note 39.

63. *Id.*

64. *Id.*

65. The America Invents Act ("AIA") was signed into law by President Obama in 2011 and took effect in 2013. *See How the America Invents Act Harmed Inventors*, IPWATCHDOG (Sept. 10 2016), <https://www.ipwatchdog.com/2016/09/10/america-invents-act-harmed-inventors/id=72551/>. The AIA made a number of changes to the patent system. Notably, the AIA switched the American system from first to invent to first to file. *Id.* This means that even if another person was first to invent, another person can get a patent on that same invention if they independently created it and filed first for a patent. Additionally, the AIA added new avenues for patent relief, like Inter Partes Reviews before the Patent and Trademark Office. *Id.* These proceedings allow individuals to have an issued

appear that *Octane Fitness* has not served one of its intended purposes: deterring NPEs from bringing frivolous lawsuits.⁶⁶ However, the *Octane Fitness* standard has increased the chances of receiving an attorney's fee award.⁶⁷ This Note will address whether *Octane Fitness*, paired with *Halo*, has actually created a larger litigation burden on defendants rather than reducing the burden of frivolous litigation.

B. Section 284 Treble Damages

Halo Electronics, Inc. v. Pulse Electronics, Inc. was decided two years after *Octane Fitness* and brought more uncertainty to patent law enhanced damages awards.⁶⁸ Prior to *Halo*, treble damages were only awarded in patent law cases after a finding that the defendant was both objectively and subjectively willful in its infringement of a patent.⁶⁹ *Halo* altered the framework by requiring only a finding of subjective willfulness based on a totality of the circumstances.⁷⁰ Following a jury's finding of willfulness, the trial judge is given full discretion in whether or not to award enhanced damages—up to treble.⁷¹ The Supreme Court's only attempt to cabin the judge's discretion was the statement that treble damages should typically be reserved for “egregious” circumstances.⁷²

Treble damages awards in patent law date back to the original Patent Act of 1793 where trebled damages were mandated.⁷³ The current act has altered the treble damages framework, stating: “[T]he court *may* increase damages up to three times the amount found or assessed.”⁷⁴ But willfulness is not textually a part of the statute. Instead, willfulness is a common law requirement that courts have

patent reviewed for validity in a faster proceeding than a district court case. *See id.*

66. Mullin, *supra* note 39.

67. *Id.*

68. *See Halo Elecs., Inc. v. Pulse Elecs., Inc.*, 136 S. Ct. 1923, 1932–33 (2016) (rejecting a test for enhanced damages that required both objective and subjective recklessness in favor of a test only requiring subjective recklessness or willfulness).

69. *Id.* at 1928 (citing *In re Seagate Tech., LLC*, 497 F.3d 1360, 1371 (Fed. Cir. 2007)).

70. *Id.* at 1933.

71. *Id.* at 1934.

72. *Id.* at 1932 (“Awards of enhanced damages under the Patent Act over the past 180 years establish that they are not to be meted out in a typical infringement case, but are instead designed as a ‘punitive’ or ‘vindictive’ sanction for egregious infringement behavior.”).

73. Patent Act of 1793, ch. 11, § 5, 1 Stat. 322 (repealed 1836).

74. 35 U.S.C. § 284 (2018) (emphasis added).

applied to the statute through their discretionary power granted by the word *may*.⁷⁵

The standard for willful infringement has varied greatly in recent history.⁷⁶ Prior to *Halo*, a more rigid test operated to reduce willfulness findings and subsequent Section 284 damages.⁷⁷ In developing its rigid framework, the Federal Circuit claimed that prior tests had “set[] a lower threshold for willful infringement that is more akin to negligence.”⁷⁸ Recognizing that such a low standard led to regular findings of willfulness and awards of enhanced damages, the Federal Circuit set out to develop a new standard that would ensure only the most culpable defendants were sanctioned.⁷⁹

75. *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 508 (1964) (stating treble damages could apply in the case of willful infringement); *Seymour v. McCormick*, 57 U.S. 480, 488 (1853) (treble damages are for the “the wanton and malicious pirate”); Don Zhe Nan Wang, *End of the Parallel Between Patent Law’s § 284 Willfulness and § 285 Exceptional Case Analysis*, 11 WASH. J.L. TECH. & ARTS 311, 317 (2016).

76. *See generally Halo*, 136 S. Ct. at 1932 (“The sort of conduct warranting enhanced damages has been variously described in our cases as willful, wanton, malicious, bad-faith, deliberate, consciously wrongful, flagrant, or—indeed—characteristic of a pirate. . . . District courts enjoy discretion in deciding whether to award enhanced damages, and in what amount. But through nearly two centuries of discretionary awards and review by appellate tribunals, ‘the channel of discretion ha[s] narrowed,’ . . . so that such damages are generally reserved for egregious cases of culpable behavior.”); *In re Seagate Tech., LLC*, 497 F.3d 1360, 1370–71 (Fed. Cir. 2007) (rejecting the lower threshold set in *Underwater Devices* as “more akin to negligence,” holding that “proof of willful infringement permitting enhanced damages requires at least a showing of objective recklessness,” and emphasizing that there is no obligation to seek legal counsel’s opinion); *Underwater Devices Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380, 1390 (Fed. Cir. 1983) (supporting the district court’s finding that the infringer knew or should have known of the infringement because its advice came from its own in-house counsel that was known to not be a patent attorney, and the counsel’s memorandum contained only “bald, conclusory, and unsupported remarks regarding validity and infringement of the . . . patents”), *overruled by In re Seagate Tech., LLC*, 497 F.3d 1360 (Fed. Cir. 2007).

77. *In re Seagate*, 497 F.3d at 1371 (requiring both a showing of objective recklessness and “clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent” to establish willful infringement).

78. *Id.* (citing *Underwater Devices*, 717 F.2d at 1390).

79. For a thorough explanation of the Federal Circuit’s reasoning in *In re Seagate*, see Wang, *supra* note 75, at 318–19. Surprisingly, under the old discretionary standard, a study found that from 1983 to 2000, willfulness was found in 67.7 percent of jury trials and 52.6 percent of bench trials. *Id.* at 318. Upon a finding of willfulness, judges would enhance damages 95 percent of the time when they found willfulness and 63 percent of the time the jury found willfulness. *Id.* Accordingly, willful infringement and treble damages were a regular, if not predominant, finding under the old standard.

The standard set forth in *In re Seagate*⁸⁰ created this rigid, multipart framework.⁸¹ First, the court created a two-prong test for willfulness.⁸² The test required a finding that, (1) an objective infringer would know they are infringing a valid patent, and (2) the infringer subjectively had such knowledge.⁸³ Second, the court placed the burden of proof on the patentee to establish willfulness and heightened the standard of review to “clear and convincing evidence.”⁸⁴ With such a heightened standard of review, the Federal Circuit was able to exert more control over district court discretion and further reduce the number of enhanced damages awards.

However, the Federal Circuit likely overplayed its hand by creating such a rigid standard in *In re Seagate*. The effect of the Federal Circuit’s new test for willfulness was a major reduction in the number of requests for Section 284 damages.⁸⁵ For example, before *Halo* in 2015, only six motions for willfulness and two motions for both willfulness and treble damages were considered.⁸⁶ It follows that the *Seagate* standard greatly reduced the viability of Section 284 claims.

Halo was the consolidation of two cases where juries found willful infringements, but enhanced damages were later denied under the objective-subjective framework due to the defense that the objective infringer would not have been aware of the patent.⁸⁷ The Supreme Court held that the objective prong of the *Seagate* test allowed culpable defendants to evade liability by asserting the defense of an objectively reasonable person.⁸⁸ Thus, the Court held that a defendant who either “intentional[ly] or knowing[ly]” infringed could be liable for up to treble damages.⁸⁹ While the Supreme Court recognized concerns that district courts would “award enhanced damages too readily,” it held that the legislative intent of the statute was to base a finding of willfulness upon a totality of the circumstances.⁹⁰

The new *Halo* standard essentially divides the Section 284 enhancement decision between the judge and the jury.⁹¹ First, the

80. 497 F.3d 1360.

81. *Id.* at 1371.

82. *Id.*

83. *Id.*

84. *Id.*

85. See JD Wooten, *Willful Infringement, Opinion Letters, & Post-Halo Trends*, IPWATCHDOG (Sept. 29, 2017), <https://www.ipwatchdog.com/2017/09/29/willful-infringement-opinion-letters-post-halo/id=88181/>.

86. *Id.*

87. *Halo Elecs., Inc. v. Pulse Elecs., Inc.*, 136 S. Ct. 1923, 1931 (2016).

88. *Id.* at 1932–33.

89. *Id.* at 1933.

90. *Id.* at 1934–35.

91. See *id.* at 1933–34.

jury is instructed to decide, based on a totality of the circumstances, if the defendant infringed willfully.⁹² Following a finding of willfulness, the district court is then given discretion to award up to treble damages.⁹³ The district court must weigh the totality of the circumstances when deciding if treble damages should be awarded.⁹⁴

Under the new standard, district courts are left with little instruction as to what circumstances weigh in favor of and against treble damages awards. The Supreme Court avoided this issue by stating that discretionary decisions should be made in “light of the longstanding considerations we have identified as having guided both Congress and the courts.”⁹⁵ However, after pointing district courts to prior case law to guide their discretion, the Court attacked the longstanding common law consideration that treble damages were reserved for “egregious” circumstances.⁹⁶ In an unexplained, one-off statement, the Court opined that while enhanced damages are typically reserved for “egregious” circumstances, that is not “to say that enhanced damages must follow a finding of egregious misconduct.”⁹⁷

Accordingly, the *Halo* standard has returned the willfulness analysis to a pre-*Seagate* low. As the Federal Circuit pointed out in *Seagate*, this standard is synonymous with negligence.⁹⁸ Black’s Law Dictionary defines negligence as “[t]he failure to exercise the standard of care that a reasonably prudent person would have exercised in a similar situation.”⁹⁹ Here, the totality of the circumstances test does not require actual evidence of willful infringement; instead, circumstantial evidence can be sufficient to support a finding of objective willfulness.¹⁰⁰ Accordingly, juries can infer culpability from circumstances that would lead a reasonably prudent person to know he or she was willfully infringing.¹⁰¹ Such a standard allows evidence that is nothing more than negligence to support a willfulness finding. For the remainder of this Note, this phenomenon will be referred to as “negligent willfulness.”

92. *See id.* at 1933.

93. *Id.* at 1933–34.

94. *Id.*

95. *Id.* at 1934.

96. *Id.* at 1932.

97. *Id.* at 1933.

98. *In re Seagate Tech., LLC*, 497 F.3d 1360, 1371 (Fed. Cir. 2007).

99. *Negligence*, BLACK’S LAW DICTIONARY (11th ed. 2019).

100. *WBIP, LLC v. Kohler Co.*, 829 F.3d 1317, 1342 (Fed. Cir. 2016) (holding that the record contained sufficient evidence for the jury to infer that the defendant had knowledge of the patents at issue).

101. *Id.*

IV. COURTS HAVE FAILED TO DRAW A MEANINGFUL DISTINCTION
BETWEEN EGREGIOUS AND EXCEPTIONAL CIRCUMSTANCES WHEN
AWARDING ENHANCED DAMAGES

A. *Negligent Willfulness May Support an Award of Both Section
284 & Section 285 Damages*

*Stryker Corporation v. Zimmer, Inc.*¹⁰² was consolidated with *Halo* on certiorari to the Supreme Court.¹⁰³ Following the Supreme Court's decision in *Halo*, *Stryker* continued to make its way through the courts. The case was first remanded to the Federal Circuit,¹⁰⁴ then remanded back to the district court,¹⁰⁵ and finally affirmed by the Federal Circuit.¹⁰⁶ The *Stryker* precedent provided valuable insight into the application of the new *Halo* standard for Section 284 and its interplay with Section 285 attorney's fees.¹⁰⁷

The United States District Court for the Western District of Michigan originally enhanced damages due to willful infringement, but the Federal Circuit reversed.¹⁰⁸ On certiorari, the Supreme Court reduced the standard for Section 284 enhancement, leading to a lengthy process of re-analysis by the lower courts.¹⁰⁹ On remand to the Federal Circuit, the Court stated that while it upheld the "district court's willfulness determination, it does not necessarily follow that the case is exceptional."¹¹⁰ While the Federal Circuit acknowledged that Section 284 and Section 285 decisions were left to the discretion of the trial court, they seemed to imply that willfulness does not always equate to exceptionality as defined by Section 285.¹¹¹ The Federal Circuit further held that the defendant's litigation positions and defenses were objectively reasonable in *Stryker* in an apparent attempt to discourage the district court from granting attorney's fees on remand.¹¹²

102. 136 S. Ct. 356 (2015).

103. See *Stryker*, 136 S. Ct. at 356–57; *Halo Elecs., Inc. v. Pulse Elecs., Inc.*, 136 S. Ct. 356 (2015).

104. *Stryker Corp. v. Zimmer, Inc.*, 837 F.3d 1268, 1270 (Fed. Cir. 2016).

105. *Stryker Corp. v. Zimmer, Inc.*, No. 1:10–CV–1223, 2017 WL 4286412, at *1 (W.D. Mich. July 12, 2017).

106. *Stryker Corp. v. Zimmer, Inc.*, 745 F. App'x 167, 168 (Fed. Cir. 2018).

107. *Stryker*, 837 F.3d at 1271.

108. *Stryker Corp. v. Zimmer, Inc.*, 782 F.3d 649, 662 (Fed. Cir. 2015), *vacated and remanded sub nom.*, *Halo Elecs., Inc. v. Pulse Elecs., Inc.*, 136 S. Ct. 1923 (2016).

109. *Halo*, 136 S. Ct. at 1932.

110. *Stryker*, 837 F.3d at 1279.

111. *Id.*

112. *Id.* at 1272.

On remand, the district court reaffirmed its original award of treble damages and attorney's fees.¹¹³ In affirming the original grant of treble damages, the district court first pointed to the relaxed nature of the new *Halo* standard and its broad discretion.¹¹⁴ Then, after giving a nod to the Federal Circuit's holding that the defendant's litigation positions were reasonable, the district court proceeded to hold that the case was exceptional and upheld an attorney's fees award based solely on the jury's finding of willfulness.¹¹⁵

The Federal Circuit then affirmed the enhanced damages awards.¹¹⁶ Accordingly, the *Stryker* decisions stand for the precedent that district courts have broad discretion;¹¹⁷ that the standard for finding willfulness and treble damages under Section 284 has been greatly reduced;¹¹⁸ and that a mere finding of willfulness is sufficient to support both Section 284 treble damages and Section 285 attorney's fees.¹¹⁹

B. District Court Cases That Have Drawn a Distinction Between Section 284 and Section 285 Damages

Following *Stryker* and *Halo*, a line of recent district court cases have taken the view that Section 285 attorney's fees should be centered around true litigation misconduct rather than supported solely by a finding of willfulness.¹²⁰ These cases have drawn a distinction between egregious and exceptional cases by confining egregiousness to infringing conduct and exceptionality to conduct related to the actual litigation.

While a bright line distinction between Section 284 and Section 285 would aid practitioners and the industry when discerning risk and developing legal theories, the courts in this line of cases have not been so helpful. Possibly the most helpful distinction provided is that while "willfulness can be a 'compelling' indicator that a case is 'exceptional' under § 285 . . . it does not automatically make it so."¹²¹ In a similar case, the court granted treble damages under Section 284

113. *Stryker Corp. v. Zimmer, Inc.*, No. 1:10-CV-1223, 2017 WL 4286412, at *1 (W.D. Mich. July 12, 2017), *aff'd*, 745 F. App'x 167 (Fed. Cir. 2018).

114. *Id.* at *2, *6.

115. *Id.* at *6.

116. *Stryker*, 745 F. App'x at 168.

117. *Stryker*, 2017 WL 4286412, at *6.

118. *Id.* at *2.

119. *Id.* at *6.

120. *See, e.g.*, *Microsoft Corp. v. Corel Corp.*, No. 5:15-cv-05836-EJD, 2018 WL 2183268, at *8 (N.D. Cal. May 11, 2018); *Eidos Display, LLC v. Chi Mei Innolux Corp.*, No. 6:11-CV-00201-JRG, 2018 WL 1156284, at *7 (E.D. Tex. Mar. 5, 2018); *Idenix Pharm. LLC v. Gilead Scis., Inc.*, 271 F. Supp. 3d 694, 704–05 (D. Del. 2017); *Polara Eng'g, Inc. v. Campbell Co.*, 237 F. Supp. 3d 956, 994 (C.D. Cal. 2017).

121. *Microsoft*, 2018 WL 2183268, at *8.

after a jury finding of willfulness.¹²² However, after conducting a thorough review of the defendant's litigation theories and defenses, the court held that the litigation positions were not objectively unreasonable and the case was not exceptional under Section 285.¹²³

This line of cases demonstrates the district courts' own desire to avoid sanctioning defendants twice, once under Section 284 and again under Section 285, by applying the weak *Halo* standard.¹²⁴ However, as courts attempt to justify this reasoning, a sort of convoluted logic is required. First, courts continue to hold that willfulness is sufficient to support an exceptional case.¹²⁵ Next, courts state that while the case is egregious enough—or negligently willful enough under the *Halo* standard—to impose punitive damages, this does not automate a finding of exceptionality.¹²⁶ Yet, the plain meaning of egregiousness is conduct that is greater than or equal to exceptionality. Moreover, a punitive treble damages sanction is supposed to require a greater finding of culpability than a compensatory attorney's fees award under Section 285.¹²⁷ Thus, these courts are using their equitable discretion to define a standard that cannot be delineated.

C. District Court Cases That Have Not Recognized a Distinction Between Section 284 and Section 285 Damages

While one line of district court cases represent an attempt to discretionarily avoid sanctioning the same willful conduct twice with both Section 284 and Section 285 damages, other case law has followed the *Stryker* precedent. The *Stryker* line of cases reads the *Halo* decision literally, opening the door for defendants to be sanctioned twice for mere negligent willfulness by awarding both Section 284 and Section 285 damages.

In *Chamberlain Group, Inc. v. Techtronic Industries Co.*,¹²⁸ the court specifically cited *Stryker* to support its basis for awarding both Section 284 and Section 285 damages for a mere finding of willfulness.¹²⁹ Specifically, the court held that while the Federal Circuit said a mere finding of willfulness does not mandate attorney's fees, this does not foreclose the ability of willfulness to support both

122. *Polara*, 237 F. Supp. 3d at 994.

123. *Id.* at 994–95.

124. *Eidos*, 2018 WL 1156284, at *7–8 (holding that a finding of willfulness and award of Section 284 damages should not mandate an exceptional case under Section 285).

125. *See, e.g., Polara*, 237 F. Supp. 3d at 980.

126. *See, e.g., Microsoft*, 2018 WL 2183268, at *9.

127. *See infra* Subpart V.A. (explaining that for a punitive statute to be constitutional it must punish a higher level of culpability commensurate to the punitive award).

128. 315 F. Supp. 3d 977 (N.D. Ill. 2018).

129. *Id.* at 1014, 1017–18.

treble damages and attorney's fees.¹³⁰ Thus, the court proceeded to impose both a Section 284 enhancement and attorney's fees based upon a finding of willfulness.¹³¹

The court in *Fitness Anywhere LLC v. WOSS Enterprises, LLC*¹³² further eroded the distinction between Section 284 and Section 285, by inextricably combining them in scenarios where the jury finds willfulness.¹³³ In doing so, the court held that the jury's determination of willfulness goes to prove that the defendant's litigation positions were baseless and favor enhancement.¹³⁴ Essentially, the court adopted the view that because the jury found willful infringement, any defense that the defendant put forth was baseless due to the defendant's constructive knowledge of infringement.¹³⁵

This appears to be a very weak nexus. First, a party can have a good faith belief in its litigation strategy, and losing the case is not evidence that its defense was baseless. Moreover, this connection further combines Section 284 and Section 285 by holding that a finding of willfulness charges the defendant with knowledge that it infringed and makes any subsequent defense raised at trial a baseless claim that constitutes exceptional litigation misconduct.

Finally, it is important to note that actual evidence of subjective knowledge is not required to support a finding of willfulness.¹³⁶ Instead, circumstantial evidence is enough to support a jury's finding of willfulness based upon the totality of the circumstances.¹³⁷ In the same case that held actual proof of knowledge is not necessary, the court upheld both an award of Section 284 and Section 285 damages.¹³⁸ Moreover, the jury's finding of willfulness was at least a partial basis for the award of attorney's fees.¹³⁹ It follows that future courts adhering to this line of cases can find support for both a Section 284 and Section 285 award based solely upon a finding of circumstantial willfulness, which is essentially negligent willfulness.

The common thread that differentiates this line of cases from those cases that seek to separate Section 284 and Section 285 is an unwillingness to assess Section 285 only in light of actual litigation conduct. Instead, this line of cases relies on the outdated premise

130. *Id.* at 1017–18.

131. *Id.* at 1015, 1018.

132. No. 14-cv-01725-BLF, 2018 WL 6069511 (N.D. Cal. Nov. 20, 2018).

133. *Id.* at *3–4, *8.

134. *See id.*

135. *See id.*

136. *WBIP, LLC v. Kohler Co.*, 829 F.3d 1317, 1341–42 (Fed. Cir. 2016).

137. *Id.*

138. *Id.* at 1342.

139. *Id.* at 1325.

that willfulness alone can support both awards.¹⁴⁰ Moving forward, these courts should attempt to reserve a finding of exceptionality for baseless or abusive litigation strategies and defenses rather than conduct that is independently sanctionable under Section 284.

D. Looking to Trademark Law for Guidance

Perhaps courts would be well served to look to trademark law for guidance in this area. Trademark law—like patent law—provides a limited right in intellectual property in order to provide consumer protection and source identification.¹⁴¹ Like patent law, trademark infringers can be held liable for enhanced damages if they are found to willfully infringe.¹⁴² Moreover, attorney’s fees can be awarded in exceptional cases.¹⁴³

While trademark law is strikingly similar to the patent framework, courts have actually drawn a distinction between treble damages for willful infringement and attorney’s fees awards. Trademark law once held that an award of attorney’s fees could be based solely upon a jury’s finding of willfulness, but recent precedent has recognized that such double sanctioning of conduct without culpability is incongruent with the statutory intent of the Lanham Act.¹⁴⁴ Thus, courts have held that “a jury finding of willful infringement is relevant to the question of whether a case is exceptional, [but] it is insufficient on its own to support an award of fees in the absence of some . . . ‘heightened level of culpability.’”¹⁴⁵ In redefining the trademark standard, courts have even pointed to the Federal Circuit’s patent decision in *Octane Fitness*, stating that the *Octane Fitness* decision did not explicitly include willfulness in the factors to consider for an exceptional case.¹⁴⁶

The similarities between these two fields and their apparent interdependence on the same case law leaves no reason for courts to differentiate the tests for attorney’s fees and treble damages in trademark and patent litigation.

140. See, e.g., *Chamberlain Grp., Inc. v. Techtronic Indus. Co.*, 315 F. Supp. 3d 977, 1012, 1017–18 (N.D. Ill. 2018).

141. See Paul L. Bonewitz, Note, *Beyond Confusion: Reexamining Trademark Law’s Goals in the World of Online Advertising*, 81 ST. JOHN’S L. REV. 899, 899–900 (2007).

142. See 15 U.S.C. § 1117(a) (2018).

143. *Id.*

144. See *Morton & Bassett, LLC v. Organic Spices, Inc.*, No. 15-cv-01849-HSG, 2017 WL 3838097, at *5 (N.D. Cal. Sept. 1, 2017).

145. *Anhing Corp. v. Thuan Phong Co.*, No. CV13–05167–BRO (MANx), 2016 WL 6661178, at *3 (C.D. Cal. Jan. 25, 2016) (quoting *Invision Media Servs., Inc. v. Glen J. Lerner*, 175 F. App’x 904, 906 (9th Cir. 2006)).

146. E.g., *SunEarth, Inc. v. Sun Earth Solar Power Co.*, 839 F.3d 1179, 1180–81 (9th Cir. 2016).

V. THE CIRCUMSTANCES IN WHICH WILLFULNESS CAN SUPPORT BOTH
TREBLE DAMAGES AND ATTORNEY'S FEES MUST BE DIFFERENTIATED
TO PROTECT THE PATENT SYSTEM

A. *The Legislative History of the Act Does Not Tie Attorney's Fees
to a Treble Damages Award*

Section 284 and Section 285 were not intended to be inextricably tied together.¹⁴⁷ Instead, each section was developed to cure separate harms with individual and unique remedies: up to tripled damages or attorney's fees.¹⁴⁸ However, under the overruled objective-subjective test set forth by the Federal Circuit, commentators began to notice that a finding of willfulness under Section 284 equated to a finding that the case was exceptional under Section 285.¹⁴⁹ This was not the result of a statutory connection between the sections, but a realization that the high level of culpability that is required for a willfulness finding should also fulfill exceptionality.¹⁵⁰

The difficulty with maintaining this connection between Section 284 and Section 285 under the low standard set forth by *Halo* and *Octane Fitness* is that they are not designed to work hand in hand as remedies for the same harm.¹⁵¹ Section 284's "up to three times" damages provision has always served as a deterrent for bad faith "commercial behavior."¹⁵² In *Vulcan Engineering Co. v. Fata Aluminum*,¹⁵³ the Federal Circuit defined the harm the patentee sought to be remedied by Section 284. Specifically, the court stated:

The rules of patent infringement are rules of business ethics and require prudent commercial actions in accordance with law. 35 U.S.C. § 284 provides remedy to the patentee when these standards are not met, up to three times the amount of found or assessed damages.

. . . [W]illful infringement arises upon deliberate disregard for the property rights of the patentee.¹⁵⁴

Thus, Section 284 operates to punish willful infringement in the pre-litigation "commercial" context.

147. See Wang, *supra* note 75, at 328.

148. See *id.*

149. See Debra Koker, Legal Update, *Fulfilling the "Due Care" Requirement After Knorr-Bremse*, 11 B.U. J. SCI. & TECH. L. 154, 157 (2005).

150. See Wang, *supra* note 75, at 319–21.

151. See *id.* at 322–23 (noting that Section 284 and Section 285 seek to remedy separate harms).

152. See *id.* at 321–23; 4 ROBERT A. MATTHEWS JR., ANNOTATED PATENT DIGEST § 31:1, Westlaw (database updated Nov. 2019).

153. 278 F.3d 1366 (Fed. Cir. 2002).

154. *Id.* at 1378.

On the other hand, Section 285 is a remedy for litigation misconduct.¹⁵⁵ This is evidenced by the court awarding an amount based upon the fixed costs of the litigation rather than punishing the (losing) party by awarding a random multiple of commercial damages.¹⁵⁶ Moreover, the Supreme Court, in another context, concluded that attorney's fees awards are not punitive because they are based on actual costs,¹⁵⁷ unlike Section 284 which has no basis in actual damages felt by the patentee. Accordingly, the standard for a punitive award should be greater than the standard for a mere compensatory award because punitive damages indicate culpable conduct or wrongdoing which society seeks to prevent.¹⁵⁸

The Supreme Court has even held, outside the patent law context, that punitive rewards demand a higher level of culpability than everyday compensatory damages.¹⁵⁹ Even though compensatory and punitive awards are "usually awarded at the same time by the same decision maker, [they] serve different purposes."¹⁶⁰ One operates to compensate while the other punishes.¹⁶¹ Looking to Supreme Court precedent, *BMW of North America, Inc. v. Gore*¹⁶² provides guideposts to test the constitutionality of punitive awards. The "first and most important guidepost is whether the damages are commensurate to the level of reprehensibility of the defendant's conduct."¹⁶³ Next, the court must consider the "ratio [of the punitive award] to the actual harm."¹⁶⁴ Finally, the punitive damages must "bear a 'reasonable relationship' to [the] compensatory damages."¹⁶⁵

Here, it is important to note that the "first and most important guidepost" is not always met under the new standard. Because the new totality of the circumstances test can sanction conduct that resembles mere negligence, a punitive punishment of up to treble damages is not commensurate to the reprehensibility of conduct. Instead, conduct should rise to the level of reckless or intentional in order to meet the "reprehensible" standard and support the draconian award of treble damages. A differentiation in the standards is necessary, requiring truly reprehensible or "egregious" circumstances under Section 284 to support the award of punitive damages.

155. Wang, *supra* note 75, at 322.

156. *Id.*

157. *See* State Farm Mut. Auto. Ins. Co. v. Campbell, 538 U.S. 408, 416 (2003).

158. *See id.*; Wang, *supra* note 75, at 323.

159. *See* State Farm, 538 U.S. at 416; Wang, *supra* note 75, at 323.

160. *State Farm*, 538 U.S. at 416.

161. *See generally* Jill Wieber Lens, *Defective Punitive Damage Awards*, 2017 UTAH L. REV. 1019 (2017) (explaining the limitations on punitive awards, which are tied to compensatory damages but seek to punish the defendant).

162. 517 U.S. 559 (1996).

163. Lens, *supra* note 161, at 1027 (quoting *BMW*, 517 U.S. at 575).

164. *BMW*, 517 U.S. at 580.

165. *Id.*

Moreover, the legislative history of Section 285 indicates a desire to prevent actual litigation misconduct—distinguished from Section 284, which punishes bad faith infringement.¹⁶⁶ Looking to the senate reports, it appears that Congress intended Section 285 to apply as a deterrent in situations where infringers would only be exposed to compensatory damages.¹⁶⁷ For example, one senate report states that the discretionary award of attorney’s fees “will discourage infringement of a patent by anyone thinking that all he would be required to pay if he loses the suit would be a royalty.”¹⁶⁸ It follows that Section 285 operates to complement Section 284 damages by filling a gap of unsanctioned conduct. Therefore, Section 285 should not be automatically tied to Section 284 damages to create a lethal punishment for conduct that resembles negligence. Instead, the two sections should operate independently to sanction commercial misconduct versus litigation misconduct—or truly egregious, as opposed to merely exceptional, circumstances.

B. The Liberal Enhanced Damages Standard Does Not Further the Sciences and Useful Arts

The United States Constitution mandates that the patent system “promote the progress of science and useful arts.”¹⁶⁹ To serve this purpose, enhanced damages in the patent law context serve as a hefty deterrent against embarking on infringing activities.¹⁷⁰ The threat of enhanced awards protects the property rights of a patent owner by punishing infringers.¹⁷¹ However, the current framework goes too far. The threat of enhanced damages under the current test deters the progress of science and the useful arts. Embarking on the discovery of improved and innovative products is not worth the risk of potentially lethal punitive damages.¹⁷²

The argument supporting enhanced damages is premised on the assumption that researchers and inventors will increase their investment in the progress of science and the arts if their patent is protected by monetary and punitive awards.¹⁷³ However, the overall

166. See *supra* Part II (discussing the legislative intent of Section 285).

167. See Wu & Wu, *supra* note 24, at 46.

168. S. REP. NO. 79-1503, at 2 (1946).

169. U.S. CONST. art. I, § 8, cl. 8.

170. See Karshtedt, *supra* note 12, at 1435 (arguing that the basic purpose of enhanced damages in patent law seems to be all over the board, but many courts and scholars have referred to at least some basis in punishment and deterrence).

171. See *id.*

172. See *SRI Int’l, Inc. v. Cisco Sys., Inc.*, 254 F. Supp. 3d 680, 723 (D. Del. 2017) (holding that Cisco’s willful infringement was a factor that weighed towards both an award of attorney’s fees and doubled damages).

173. See Karshtedt, *supra* note 12, at 1437 (stating that *Halo* and other courts have frequently settled on the punishment justification for enhanced damages,

goal of the patent system is to award inventors with a periodic property right in their invention in exchange for placing that invention in the public domain to further innovation.¹⁷⁴ Yet, the current system slows further innovation because the public avoids endeavoring in innovative sciences due to its fear of crippling treble damages and attorney's fees.¹⁷⁵

To demonstrate the proper balance between patent enforcement and protection of new innovation and competition, one can look to antitrust law.¹⁷⁶ Through antitrust legislation, Congress has made it clear that competition is encouraged in our legal framework in order to drive down prices, provide innovation, and achieve an optimal market for consumers.¹⁷⁷ This policy position against monopolies should also be evident in the patent law framework.

While patent law provides inventors a monopoly, effectively in conflict with antitrust law, this monopoly is for a limited period of time and is in exchange for immediate disclosure of a useful invention to the public domain. This trade-off ensures that the public domain is filled with new technologies that can better society. While the patent holder's rights must be protected in order to encourage disclosure, protection cannot rise to a level that inhibits other members of the public from innovating in their own right. Doing so would stifle progress, destroying the justification for granting a limited monopoly through patent rights.

The Supreme Court has made it clear that patent laws should be interpreted with an eye towards policy.¹⁷⁸ Thus, in exercising their discretionary authority, district courts should not merely award enhanced damages due to a totality of the circumstances finding of negligent willfulness. Instead, the policy to promote innovation and competition should be considered prior to entering a lethal award. Only in the most egregious cases, supported by evidence of actual bad faith and willful infringement, should a court have the ability to enter an award of both trebled damages and attorney's fees.

rationalizing that the industry will be promoted by punishing malicious and bad-faith behavior).

174. *See id.* at 1432.

175. *Cf.* Fed. Trade Comm'n, *To Promote Innovation: The Power Balance of Competition and Patent Law and Policy*, 19 BERKELEY TECH. L.J. 861, 880 (2004) ("It is troubling that some businesses refrain from reading their competitors' patents because they fear the imposition of treble damages for willful infringement. Nonetheless, infringers must not be allowed to profit from knowingly and deliberately using another's patented invention due to a low likelihood that the patent holder can afford to bring suit or obtain substantial damages.").

176. *See id.* at 862.

177. *Id.*

178. *See* *Graham v. John Deere Co.*, 383 U.S. 1, 6 (1966); Fed. Trade Comm'n, *supra* note 175, at 881.

C. Potential Infringers are Exposed to Crippling Liability That Forces Unfair Settlement

Under the liberalized standard for treble damages, actual evidence of willfulness is not necessary. Instead, circumstantial evidence is enough to support a finding of willful infringement under the totality of the circumstances.¹⁷⁹ This same evidence is sufficient to support a finding of attorney's fees.¹⁸⁰ While this result may be justified if the litigant's willfulness made it unjust for the party bringing the suit to pay the associated costs and the infringer's conduct further rose to the level of bad faith necessary to award punitive damages, the same justification does not follow when a mere finding of negligent willfulness can be the necessary "exceptional" circumstance to add attorney's fees on top of trebled damages.¹⁸¹

The median cost of attorney's fees to litigate a case through discovery is well over one million dollars.¹⁸² Add this to the injury caused by tripling compensatory damages and a potential defendant can face awards that will sound the death knell for its business. Thus, the question becomes: Do treble damages act to slow the progress of the arts and sciences rather than promote it?

Because egregious and exceptional circumstances are not defined and lawyers can argue they fit many scenarios, plaintiffs have a useful new tool. Prior to the Supreme Court's decisions in *Halo* and *Octane Fitness*, plaintiffs rarely brought a claim for enhanced damages unless there was clear evidence of bad faith.¹⁸³ However, the uncertainty of the new totality of the circumstances test gives plaintiffs a valuable threat to exploit.¹⁸⁴ Merely asserting a claim for enhanced damages under the new standard is more likely to survive summary judgment, prolong litigation, increase expenses, and allow plaintiffs to present willfulness arguments to the jury.¹⁸⁵ Even when the evidence is weak, the threat of enhanced damages under an

179. See *WBIP, LLC v. Kohler Co.*, 829 F.3d 1317, 1342 (Fed. Cir. 2016).

180. See *id.* at 1339.

181. See Mateo J. de la Torre, Note, *The Troll Toll: Why Liberalized Fee-Shifting in Patent Cases Will Do More Harm than Good*, 101 CORNELL L. REV. 813, 836 (2016) (explaining that the uncertainty that surrounds awards of attorney's fees will likely lead to a lesser willingness to settle in hopes of a larger award and increased expenditures on litigation costs).

182. The American Intellectual Property Law Association found in its 2013 report that the cost of litigating a patent lawsuit through discovery ranges from \$530,000 to \$3,600,000. AM. INTELLECTUAL PROP. LAW ASS'N, 2013 REPORT OF THE ECONOMIC SURVEY 1 (2013).

183. See generally Wooten, *supra* note 85 (charting the uptick in requests for enhanced damages after the *Halo* decision).

184. See Jennifer Hartjes, *Halo is Not the Saving Grace for the Patent System*, 166 U. PENN. L. REV. 1029, 1039 (2018).

185. See *id.*

uncertain standard and increased litigation expenses will drive settlement negotiations in the plaintiff's favor.¹⁸⁶

An empirical study performed by PwC found that willfulness findings in the year following the *Halo* decision increased from 36 percent to 54 percent, while the number of cases requesting treble damages only increased by approximately 9 percent.¹⁸⁷ While the increase in cases requesting treble damages appears small, this number is likely reduced by the recency of the *Halo* decision. As plaintiffs begin to recognize the increased viability of enhanced damages awards, an increase in requests will likely follow. All of these factors will drive settlement negotiations in the favor of patent owner plaintiffs.

Even prior to the *Octane Fitness* and *Halo* decisions, it was well understood that alleged infringers were at a disadvantage in patent litigation.¹⁸⁸ Accused infringers face higher costs of litigation, which can drive settlements even among wrongly accused parties.¹⁸⁹ While the *Octane Fitness* decision was supposed to alleviate concerns of frivolous litigation by increasing the accessibility of attorney's fees to defendants, the decision also had an inverse effect. Under the new standard, defendants are also exposed to claims for attorney's fees, which further increases their defense costs and influences settlement decisions. Furthermore, the number of attorney's fees requests in the period after *Octane Fitness* was up over 50 percent, making the fear of enhanced awards a real consideration in settlement negotiations.¹⁹⁰

Accordingly, the combined threat of attorney's fees and treble damages is a real concern for industry innovators looking to stay competitive in their field. This concern will continue to influence settlements of innocent parties, giving patentees an unreasonable competitive advantage. The threat of being forced into unnecessary settlements will stall innovative pursuits and slow the competitive market.

186. *Id.* ("Plaintiffs will have the power not only to obtain enhanced damages at trial, but also to exploit the threat of such damages to negotiate higher settlements.")

187. LANDAN ANSELL ET AL., PWC, 2018 PATENT LITIGATION STUDY 17 (2018), <https://www.pwc.com/us/en/forensic-services/publications/assets/2018-pwc-patent-litigation-study.pdf>.

188. *See* Lavenue et al., *supra* note 61, at 28 ("One of the proposed bills, the Innovation Act (H.R. 9)—[was] originally introduced by Representative Bob Goodlatte (R-Va.) in October 2013 and advanced as 'the solution to the problem of abusive patent litigation.'").

189. *Id.*

190. *Id.*

D. Defining an Intelligent Standard

When the Supreme Court remanded *Halo* and *Octane Fitness*, it left courts with little guidance. Essentially, the Court stated that treble damages should typically be reserved for “egregious” circumstances and attorney’s fees should be awarded in “exceptional” cases.¹⁹¹ The district courts were left to discern these situations by looking at the totality of the circumstances.¹⁹² Accordingly, there is little to no differentiation between scenarios calling for treble damages and those calling for attorney’s fees.¹⁹³ When paired with the fact that the standard for proving enhanced damages is merely based on the totality of the circumstances, the threat of crippling enhanced damages is very real to defendants.

To alleviate the substantial burden placed on defendants under the current enhanced damages framework, courts should shift their treatment of treble damages and attorney’s fees in one of two ways: (1) the test for willful infringement should not be based on a totality of the circumstances but rather should require a greater showing of culpability, distinguishing between an award for attorney’s fees and treble damages, or (2) attorney’s fees awards should be reserved for actual litigation misconduct rather than any exceptional circumstance.

1. Egregious Circumstances Standard for Section 284

The test for willful infringement should require truly egregious circumstances. *Halo*’s only limiting language was that treble damages should be, but do not have to be, reserved for egregious cases.¹⁹⁴ This leaves district court discretion unchecked and entices plaintiffs to plead a willful infringement claim. While the Supreme Court has firmly decided that enhanced damages are a question of the totality of the circumstances, there is still room to differentiate between egregious and exceptional.

To define this differentiation, we need not look further than the legislative history of Section 284 and Section 285 of the Patent Act. While both sections have always sanctioned some of the same conduct, infringers are now exposed to both types of damages at equally low standards. Section 284 has historically been reserved for wanton and malicious conduct.¹⁹⁵ On the other hand, Congress added

191. See *Halo Elecs., Inc. v. Pulse Elecs., Inc.*, 136 S. Ct. 1923, 1932 (2016); *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 572 U.S. 545, 548 (2014).

192. *Halo*, 136 S. Ct. at 1933; *Octane Fitness*, 572 U.S. at 550.

193. See *supra* Part IV (analyzing a line of court cases originating from *Halo* that fails to distinguish between the circumstances calling for treble damages and those circumstances calling for attorney’s fees).

194. *Halo*, 136 S. Ct. at 1926.

195. See *supra* Part II.

“exceptional” to the language of Section 285 to codify the courts’ use of the statute to remediate gross injustice.¹⁹⁶

It follows that wanton and malicious conduct requires a higher level of culpability than injustice. Injustice can occur when a defendant was negligently willful in their infringement, but such negligence does not equate to egregiously wanton and malicious misconduct. Accordingly, attorney’s fees should be awarded in cases of negligent willfulness, while treble damages should be reserved for reckless and wanton willfulness. However, under the current standard, mere negligent conduct that is supported only by circumstantial evidence can be enough to uphold a finding of willfulness that is the basis of both treble damages and attorney’s fees.¹⁹⁷

Creating a distinction between the level of culpability that rises to Section 284 conduct versus Section 285 conduct would bring clarity to the law and assist defendants when assessing their risk tolerance to pursue new and innovative endeavors. Moreover, this standard would reduce the pressure placed on a likely innocent defendant to enter into an unfair settlement due to the threat of crippling enhanced damages.

2. *Separating the Conduct Sanctioned by Section 284 and Section 285*

The second option to bring clarity and equitable treatment to patent law enhanced damages includes separating the conduct sanctioned by Section 284 and Section 285. While this view has never been adopted by the courts, it finds support in the recent movement to sanction plaintiffs’ conduct under Section 285 and protect defendants from abusive litigation. Accordingly, separating the conduct sanctioned by each section would clarify the enhanced damages framework and resolve the issue of patent infringers being sanctioned twice for negligently willful conduct.

One of the Supreme Court’s objectives in *Octane Fitness* was to construe Section 285 broadly in order to sanction conduct that was not already sanctionable under Section 284.¹⁹⁸ Likely feeling pressure from recent congressional attempts to prevent abusive patent litigation brought by plaintiffs, the Court looked to cases interpreting the Lanham Act as inspiration for the holding that “Congress did not intend rigidly to limit recovery of fees by a []

196. S. REP. NO. 79-1503, at 2 (1946).

197. See *supra* Subpart IV.A.

198. See *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 572 U.S. 545, 555 (2014).

defendant.”¹⁹⁹ Instead, the Court construed the meaning of “exceptional” cases to mean something less than “bad faith.”²⁰⁰ Accordingly, the *Octane Fitness* definition of Section 285 exceptional cases can reach abusive plaintiffs and patent trolls.

The opposite side of this argument, however, is that defendants are now equally reachable by Section 285 for conduct that is less than bad faith. A mere finding of negligent willfulness can expose a defendant to both Section 284 and Section 285 damages.²⁰¹ Accordingly, Section 285 should be limited to instances of *actual* litigation misconduct, rather than prelitigation matters that are remediated by Section 284. This will prevent the dual sanctioning of the same conduct by instead tailoring each provision to remediate specific harms.

Section 284 treble damages have always been in place to punish infringers who act with bad intent or a requisite mens rea.²⁰² Because patent damages have grown exponentially with the development of a worldwide marketplace, the threat of treble damages has only become more lethal over time. Accordingly, there is no need to supplement Section 284 with Section 285.

Instead, Section 285 attorney’s fees should be awarded in cases of actual litigation misconduct. While courts have interpreted willfulness to be included in the realm of litigation misconduct, a logical interpretation of litigation misconduct would limit the scope to parties’ actions directly related to the litigation.²⁰³ For example, sending bad faith demands, maintaining unjustified litigation theories, harassing the opposing parties, and asserting baseless claims are all activities that directly relate to the litigation. Infringement, on the other hand, is a decision that is made before litigation. Moreover, infringement that continues after the start of the litigation can be attributable to a defendant’s confidence in its legal position, rather than misconduct. Most importantly, willful infringement is already sanctionable under Section 284 and should not be read into Section 285.

VI. CONCLUSION

In conclusion, Section 284 and Section 285 damages should not be automatically linked. Allowing a finding of willfulness under Section 284 to support Section 285 damages is in conflict with the legislative history of the acts and various Constitutional precedents.

199. *Id.* (quoting *Noxell Corp. v. Firehouse No. 1 Bar-B-Que Rest.*, 771 F.2d 521, 526 (D.C. Cir. 1985)).

200. *Id.*

201. *See supra* Subpart IV.A.

202. *See supra* Part II.

203. *See supra* Subpart IV.B.

Therefore, district courts should utilize their discretionary power to delineate a clear separation between the circumstances calling for Section 284 and Section 285 damages. Doing so will bring certainty to this lethal area of the law and serve the goal of preventing abusive litigation against alleged infringers.

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