Nos. 14-1513 and 14-1520

IN THE

Supreme Court of the United States

HALO ELECTRONICS, INC.,

Petitioner,

v.

PULSE ELECTRONICS, INC., ET AL.

Respondents.

STRYKER CORP., ET AL.,

Petitioners,

v.

ZIMMER, INC., ET AL.,

Respondents.

On Writs of Certiorari to the United States Court of Appeals for the Federal Circuit

---

BRIEF OF *AMICI CURIAE* SMALL INVENTORS IN SUPPORT OF PETITIONERS

[*Amici* Listed on Inside Cover]

ANDREW S. BALUCH*
STEPHEN G. NAGY
STRAIN & STRAIN PLLC
1455 Pennsylvania Ave., N.W.
Suite 400
Washington, D.C. 20004
(202) 621-1872
andrew.baluch@strainpllc.com

ROBERT N. SCHMIDT
CLEVELAND MEDICAL DEVICES INC.
4415 Euclid Ave.
Suite 400
Cleveland, OH 44103
(216) 374-7237

**Counsel of Record*

Counsel for Amici Curiae

LIST OF *AMICI CURIAE*
SMALL INVENTORS

U.S. Inventor
Edison Nation
Inventors Digest
National Society of Inventors
Inventors Network of the Capital Area
Texas Inventors Association
San Diego Inventors Forum
Columbus Phenix City Inventors Association
Music City Inventors Group
Small Business Technology Council
Edison Innovators Association
Louis J. Foreman
Paul Morinville
James Innes

TABLE OF CONTENTS

TABLE OF AUTHORITIES

Cases

TABLE OF AUTHORITIES—Continued

Statutes

TABLE OF AUTHORITIES—Continued

Other Authorities

TABLE OF AUTHORITIES—Continued

TABLE OF AUTHORITIES—Continued

TABLE OF AUTHORITIES—Continued

INTEREST OF *AMICI CURIAE*[1]

> *A man's useful inventions subject him to insult, robbery, and abuse.* –Benjamin Franklin.[2]

Amici curiae are individual inventors and associations of inventors that share a common interest in a robust patent system that encourages and appropriately rewards successful inventive pursuits. Collectively, *amici* have invested significant energy and personal resources in research and development in their respective technical fields. *Amici* rely on patents to protect those investments and to commercialize their discoveries through licensing. Due to their small size, *amici* oftentimes lack the resources or manufacturing ability to commercialize all aspects of an invention themselves and therefore must rely on licensing to bring their products to market. But a large company's incentive to take a license from a small inventor is all but eliminated, as in the cases at bar, if the only

---

[1] In accordance with Supreme Court Rule 37.6, *amici curiae* state that this brief was not authored, in whole or in part, by counsel to a party, and that no monetary contribution to the preparation or submission of this brief was made by any person or entity other than the *amici curiae* or its counsel. Petitioners and Respondent Pulse have filed a letter of blanket consent to *amici*. Respondent Zimmer granted consent to *amici* on December 2, 2015, via electronic mail, a copy of which is being submitted herewith.

[2] ADDRESS OF THE ADVOCATE OF THE PATENTEES, INVENTORS OF USEFUL IMPROVEMENTS IN THE ARTS AND SCIENCES: IN DEFENCE OF MENTAL PROPERTY 9 (Dec. 19, 1806).

punishment for refusing a license and losing an infringement suit is the same royalty it would have paid for the license in the first place.

Small firms, like those represented by *amici*, are important to the innovation ecosystem because small firms hire 43 percent of America's high tech workers (e.g., scientists, engineers, computer programmers), produce 16.5 times more patents per employee than large patenting firms, have generated 65 percent of net new jobs over the past 17 years, and make up 97.5 percent of all identified U.S. exporters.[3]

Amici include: U.S. Inventor, Edison Nation, Inventors Digest, National Society of Inventors, Inventors Network of the Capital Area, Texas Inventors Association, San Diego Inventors Forum, Columbus Phenix City Inventors Association, Music City Inventors Group, Small Business Technology Council, Edison Innovators Association, Paul Morinville, James Innes, and Louis J. Foreman.

U.S. Inventor is a non-profit association of inventors devoted to protecting the intellectual property of individuals and small companies through education, advocacy, and reform. Believing the interests of larger corporations to be disproportionately overrepresented in the current

---

[3] SMALL BUSINESS ADMINISTRATION, OFFICE OF ADVOCACY: THE VOICE OF SMALL BUSINESS IN GOVERNMENT (Jan. 2011) (citing U.S. Dept. of Commerce, Census Bureau and Intl. Trade Admin.; Advocacy-funded research by Kathryn Kobe, 2007 (archive.sba.gov/advo/ research/rs299tot.pdf) and CHI Research, 2003 (archive.sba.gov/advo/re- search/rs225tot.pdf); U.S. Dept. of Labor, Bureau of Labor Statistics).

discussion regarding patent reform, U.S. Inventor aims to encourage dialogue between lawmakers, inventors, and other patent stakeholders concerning the effects of past and proposed patent reform legislation and federal court decisions on the patent rights of small businesses and sole inventors.

The Small Business Technology Council advocates for the over 5,900 highly inventive firms that participate in the Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) programs.

The Edison Innovators Association is a group of inventors, product innovators, entrepreneurs, professionals, and curious minds with the goal to help each other take their ideas from a cocktail napkin to finished product or process. Unfortunately, during the past few years, the Edison Innovators Association has seen its attendance fall from 50-70 people per meeting to 10-20 people per meeting, with attendees lamenting, "Why would I patent anything? It is not worth the paper it is printed on."

Louis J. Foreman is founder and Chief Executive of Enventys, the CEO of Edison Nation and Edison Nation Medical, the Executive Producer of the award-winning PBS show Everyday Edisons, author of The Independent Inventor's Handbook, and publisher of Inventor's Digest. Himself an inventor on twelve U.S. patents, Mr. Foreman has created nine successful startups and has been directly responsible for the creation of over twenty others.

Whereas large firms can and do survive without strong patent rights, small businesses cannot. *Amici* join together in this brief to underscore the importance of patents to independent inventors and entrepreneurs who rely on licensing from willing licensees to help commercialize inventions. Without the economic returns of a license taken by a willing licensee, inventors have less incentive to engage in costly R&D, and investors have less incentive to fund small startups like those of *amici*.

SUMMARY OF ARGUMENT

The "patent reform" pendulum today has swung so far against patent owners that, in the past two months alone, *The Wall Street Journal*, *The New York Times*, and *The Washington Post* have each chronicled the rise of "efficient infringing"—large companies routinely ignoring patent licensing offers from small inventors. *See* Joe Nocera, Editorial, *The Patent Troll Smokescreen*, NEW YORK TIMES, Oct. 24, 2015, at A23; Colleen Chien, Editorial, *The Best Way to Fight a Patent Demand May Be to Do Nothing*, WALL STREET JOURNAL, Nov. 23, 2015, at R5 (finding that "many companies resolve [patent infringement] threats by simply filing them away"); John D. Wiley, Opinion, *Patent Infringement is Theft, Plain and Simple*, WASHINGTON POST, Nov. 17, 2015 (explaining it is efficient to "infringe patents held by others and then settle in court when sued for infringement instead of simply paying modest (and mutually negotiated) licensing fees"). With little risk of enhanced damages or an injunction, large corporate infringers have little incentive to take a license, especially from small inventors like *amici*.

The current anti-patent climate is particularly harmful to America's individual inventors and startups: "small firms are much more likely to develop emerging technologies than are large firms," and small firms "develop more patents per employee than large firms." ANTHONY BREITZMAN & DIANA HICKS, AN ANALYSIS OF SMALL BUSINESS PATENTS BY INDUSTRY AND FIRM SIZE i, v (Nov. 2008). Today's anti-patent climate, unfortunately, coincides with

the lowest period of startup formation per capita in 35 years, which has not recovered even as the U.S. economy has improved. ROBERT W. FAIRLIE *ET AL.*, THE KAUFFMAN INDEX STARTUP ACTIVITY: NATIONAL TRENDS 2015, at 22.

Crucially, America's economy relies on intellectual property for its primary competitive advantage: of all categories of goods and services that make up America's economy today, America's *single largest trade surplus* is in "charges for the use of intellectual property" (receiving $130 billion in IP royalties and license fees from foreigners, while paying foreigners only $42 billion in 2014). U.S. BUREAU OF ECONOMIC ANALYSIS, U.S. INTERNATIONAL TRADE IN GOODS AND SERVICES (Sept. 2015). Without this single largest surplus in IP licensing to offset other categories of trade, America's overall trade deficit would grow by about 18%, to over $590 billion. *Id.* Patents, in particular, are the "largest factor" in predicting a community's relative income, "followed by education then industry specialization." FEDERAL RESERVE BANK OF CLEVELAND, 2005 ANNUAL REPORT, at 17.

But a large company's incentive to take a license from a small inventor is all but eliminated, if the only punishment for refusing a license and losing an infringement suit is the same royalty it would have paid for the license in the first place. This Court should restore the discretionary enhancement of damages under 35 U.S.C. § 284, back to the statute's historically broad scope under the Patent Acts of 1836 and 1870, and in line with Congress' intent that the "discretion to award triple damages . . . 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." S. Rep. No. 79-1503, at 2 (1946).

ARGUMENT

I. At Stake In This Case Is America's Single Greatest Competitive Advantage—The Creation And Licensing Of Intellectual Property

> *A country without a patent office and good patent laws is just a crab and can't travel any way but sideways and backwards.* –Mark Twain.[4]

This case requires interpreting America's oldest enhanced damages statute. Enacted in 1836, the statutory power to increase a jury's damages award was the first, and for a while the only, provision of its kind: "The only instance where this power of increasing the 'actual damages' is given by statute is in the patent laws of the United States." *Day v. Woodworth*, 54 U.S. 363, 372 (1852).

The discretion conferred in the Patent Act of 1836 is at least as broad as today's under 35 U.S.C. § 284; the former stated: "[I]t shall be in the power of the court to render judgment for any sum above the amount found by such verdict as the actual damages sustained by the plaintiff, not exceeding three times

---

[4] MARK TWAIN, A CONNECTICUT YANKEE IN KING ARTHUR'S COURT (1889).

the amount thereof, according to the circumstances of the case, with costs . . . ." Patent Act of 1836, ch. 357, § 14, 5 Stat. 117 (1836).

Congress enacted the Patent Act of 1836 with the goal of spurring America's nascent manufacturing industry and positioning the country as a future economic rival of Europe. The accompanying Senate Report stated:

> Formerly, we borrowed and copied much that was valuable from Europe. Now, Europe is borrowing and copying, with no little advantage, from us; and she must not be too much surprised if she shall soon find a formidable balance against her. . . . Who can predict the results, even in a few years, of that spirit of enterprise which pervades the Union, when, aided by the Genius of Invention, and propelled onward by powers which she alone can bring into exercise?

Senate Report Accompanying S. 239, 24th Cong., 1st Sess. (Apr. 28, 1836).

As if on cue, within a few years of the Patent Act of 1836, America began to broaden its economic base beyond agriculture and raw materials towards manufacturing. Initially a large net importer of manufactured goods since colonial times, America's trade gap in manufactured goods steadily narrowed during the second half of the 19th century; and by 1910, America was exporting more manufactured goods than it was importing. *See* Douglas A. Irwin, *Historical Perspectives on U.S. Trade Policy*, NBER Reporter (2006).

This trend towards a knowledge-based economy continues to this day. Of all categories of goods and services that make up U.S. trade today, the country's *single largest trade surplus* is in "charges for the use of intellectual property" (receiving $130 billion in IP royalties and license fees from foreigners, while paying foreigners only $42 billion in 2014). U.S. BUREAU OF ECONOMIC ANALYSIS, U.S. INTERNATIONAL TRADE IN GOODS AND SERVICES (Sept. 2015) (hereinafter "BEA REPORT"). Without this single largest surplus in IP licensing to offset other categories of trade, America's overall trade deficit would grow by about 18%, to over $590 billion. *Id.* Patents, in particular, have become the single "largest factor" in predicting a community's relative income, more than education, infrastructure, or industry specialization. FEDERAL RESERVE BANK OF CLEVELAND, 2005 ANNUAL REPORT, at 17 (hereinafter "FED REPORT"). *See* JONATHAN ROTHWELL *ET AL.*, *PATENTING PROSPERITY: INVENTION AND ECONOMIC PERFORMANCE IN THE UNITED STATES AND ITS METROPOLITAN AREAS*, BROOKINGS INSTITUTE at 15 (Feb. 2013) (finding that "[i]f the metro areas in the lowest quartile patented as much as those in the top quartile, they would boost their economic growth by . . . an **extra $4,300 per worker**") (emphasis added).

During the 19th and 20th centuries, when the United States experienced unprecedented industrial growth, Congress not only maintained the statutory power to enhance patent damages in actions at law, but further extended that power in 1870 to actions in equity. Patent Act of 1870, ch. 230, § 55, 16 Stat. 198 (1870) ("[T]he court shall have the same powers to increase [damages and lost profits] in its

discretion that are given by this act to increase the damages found by verdicts in actions upon the case . . . .”). Explaining the change, this Court stated, “Courts could not, under [the act of 1836], augment the allowance made by the final decree [in actions in equity], as in the case of the verdict of a jury [in actions at law]; but the present patent act [of 1870] provides that the court shall have the same powers to increase the decree, in its discretion, that are given by the act to increase the damages found by verdicts in actions at law.” *Birdsall v. Coolidge*, 93 U.S. 64, 69-70 (1876).

Throughout the 19th century, this Court repeatedly emphasized the inherent flexibility of the statutory power to increase damages under the 1836 and 1870 Patent Acts, and never limited that power solely to cases of willful infringement. *See Topliff v. Topliff*, 145 U.S. 156, 174 (1892) (“defendant … made serious inroads upon their business, and sold almost exclusively to those who had formerly been customers of the plaintiffs”); *Tilghman v. Proctor*, 125 U.S. 136, 143-44 (1888) (“whenever the circumstances of the case appear to require it”); *Clark v. Wooster*, 119 U.S. 322, 326 (1886) (“expense and trouble the plaintiff has been put to by the defendant, and any special inconvenience he has suffered from the wrongful acts of the defendant”); *Teese v. Huntingdon*, 64 U.S. 2, 9 (1860) (“not acted in good faith, or has caused unnecessary expense and injury to the plaintiff”); *Dean v. Mason*, 61 U.S. 198, 203 (1858) (“where the wrong has been done, under aggravated circumstances”); *Seymour v. McCormick*, 57 U.S. 480, 488-89 (1853) (“committed to the discretion and judgment of the court”); *Day v.*

Woodworth, 54 U.S. 363, 372 (1851) ("not acted in good faith, or has been stubbornly litigious, or has caused unnecessary expense and trouble to the plaintiff").

In 1946—on the eve of America's post-World War II economic boom—Congress once again had an opportunity to narrow or eliminate the enhanced damages provision, and once again chose to maintain it. In fact, rather than curtail monetary awards in patent cases, Congress added "reasonable attorney's fees" as another monetary remedy in patent cases. Patent Act of 1946, Pub. L. No. 79-587, 60 Stat. 778. Explaining this addition, the 1946 Senate Report stated that "the discretion given the court in this respect, in addition to the *present discretion to award triple damages*, 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." S. Rep. No. 79-1503, at 2 (1946) (emphasis added).

Six years later, Congress recodified the enhanced damages and attorney's fees provisions as 35 U.S.C. § 284 (enhanced damages) and § 285 (attorney's fees). Notably, Congress added the phrase "in exceptional cases" to § 285, thereby placing some limit on the judicial discretion to award attorney's fees. But Congress added no such constraint on § 284, which remains in force to this day. The sole limit in § 284 is the numerical limit that damages may be increased "up to three times the amount found or assessed."

Today, America's single greatest competitive advantage—"charges for the use of intellectual property" (BEA REPORT, *supra*)—and America's single largest predictor of income—patents (FED REPORT, *supra*)—are tied directly to the new patent system that Congress enacted in 1836. Looking back, it can hardly be doubted that Congress accurately predicted that the patent system "will contribute largely to the great interests of the country, and bear no small part in elevating our national character." Senate Report Accompanying S. 239, 24th Cong., 1st Sess. (Apr. 28, 1836). Then, as today, "It is not at this day to be doubted that the evil of the temporary monopoly [of a patent] is greatly overbalanced by the good the community ultimately derives from its toleration." *Id.*

II. The Routine Denial Of Enhanced Damages Has Given Rise To Today's "Efficient Infringement" Problem

It is no coincidence that the two captioned cases, involving the same issue but different parties, have landed at this Court at the same time. The denial of enhanced damages in patent cases is now routine. For reversals by the Federal Circuit in just the last two years, see, e.g., *Carnegie Mellon Univ. v. Marvell Tech. Group*, 2015 U.S. App. LEXIS 13622, *42 (Fed. Cir. Aug. 4, 2015); *WesternGeco LLC v. Ion Geophysical Corp.*, 791 F.3d 1340, 1354 (Fed. Cir. 2015); *Global Traffic Techs., LLC v. Morgan*, 2015 U.S. App. LEXIS 9281, *20 (Fed. Cir. Jun. 4, 2015); *Innovention Toys, LLC v. MGA Entm't, Inc.*, 611 Fed. App'x 693, 701 (Fed. Cir. Apr. 29, 2015); *Stryker Corp. v. Zimmer, Inc.*, 782 F.3d 649, 662 (Fed. Cir.

2015); *Univ. of Pittsburgh of the Commonwealth Sys. of Higher Educ. v. Varian Med. Sys.*, 561 Fed. App'x 934, 945 (Fed. Cir. Apr. 10, 2014).

The fallout on business has now arrived. In the last two months alone, *The Wall Street Journal*, *The New York Times*, and *The Washington Post* have each published editorials capturing precisely the real-world dilemma that patent owners now face when asking a large company to take a license to their patent:

- "[B]ig companies can now largely ignore legitimate patent holders." Joe Nocera, Editorial, *The Patent Troll Smokescreen*, NEW YORK TIMES, Oct. 24, 2015, at A23;

- "The best way to deal with a patent demand may be to take a deep breath—and then do…nothing." Colleen Chien, Editorial, *The Best Way to Fight a Patent Demand May Be to Do Nothing*, WALL STREET JOURNAL, Nov. 23, 2015, at R5 (ellipses in original) (reporting that 22% of surveyed companies responded to patent demand letters by ignoring them); and

- Explaining that companies "prefer[] to infringe patents held by others and then settle in court when sued for infringement instead of simply paying modest (and mutually negotiated) licensing fees." John D. Wiley, Opinion, *Patent Infringement is Theft, Plain and Simple*, WASHINGTON POST, Nov. 17, 2015.

The new term for this practice is "*efficient infringement*." "That's the relatively new practice of

using a technology that infringes on someone's patent, while ignoring the patent holder entirely. And when the patent holder discovers the infringement and seeks recompense, the infringer responds by challenging the patent's validity." Nocera, *supra,* at A23. "Should a lawsuit ensue, the infringer, often a big tech company, has top-notch patent lawyers at the ready. Because the courts have largely robbed small inventors of their ability to seek an injunction [*see eBay Inc. v. MercExchange, LLC*, 547 U.S. 388 (2006),] the worst that can happen is that the infringer will have to pay some money." Nocera, *supra,* at A23.

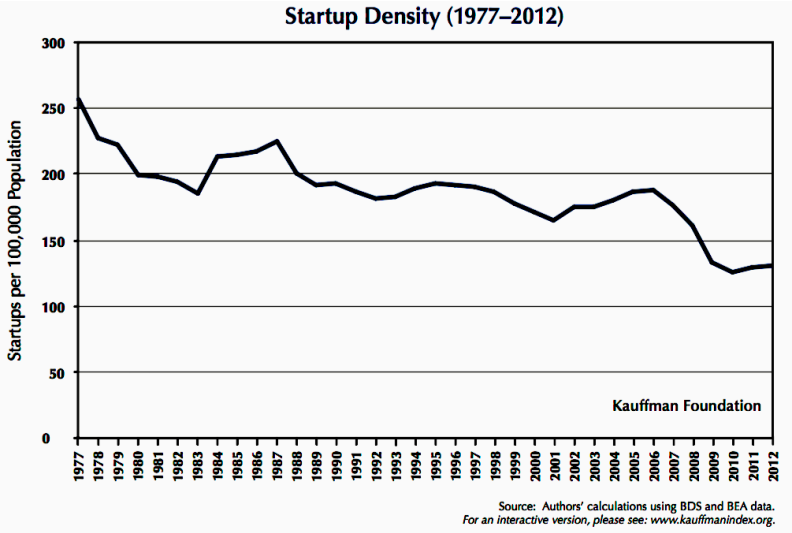
The payment of "some money," referenced in the preceding sentence, is the statutory-minimum "reasonable royalty" under 35 U.S.C. § 284 in the majority of cases. This "reasonably royalty" is the same amount the infringer would have paid if it had taken a license for the patent in the first place. *See Powell v. Home Depot U.S.A., Inc.*, 663 F.3d 1221, 1238 (Fed. Cir. 2011) ("[T]he reasonable royalty must be based on the terms of a [hypothetical] licensing agreement reached . . . between the patentee and the infringer at the time infringement began.") (alteration in original; internal quotations omitted) (quoting *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1554 (Fed. Cir. 1995) (en banc)).

The take-home message to infringers is clear: refuse a license from a small inventor, because—assuming you are sued, and assuming further that you lose—all you will pay in damages at the end of a lawsuit is the same "reasonable royalty" that you would have paid for the license in the first place.

Infringement under these circumstances is "efficient" because, as Professor Epstein explains, "an uncertain future damage action is worth far less than a prompt and secure license payment." Richard A. Epstein, *Intellectual Property and the Law of Contract: The Case Against "Efficient Breach"*, 9 EUROPEAN REVIEW OF CONTRACT LAW 345 (2013). *See also* Pat Choate, *Patent Theft as a Business Strategy*, HUFFINGTON POST, May 23, 2010 (explaining that infringers "calculate the benefits of stealing someone else's patented technology against the possibility of getting caught, tried in court and being forced to pay damages and penalties").

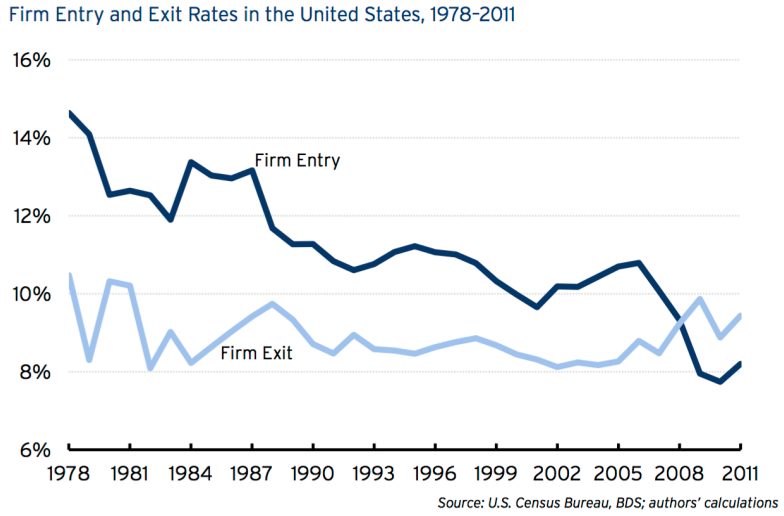
The current anti-patent climate harms small inventors most. *See* Choate, *supra* ("The principal victims of these big corporations' 'efficient infringement' approach are America's independent inventors, small businesses and universities…."). That is because small businesses rely on patents to protect their inventions more than large companies, and small businesses tend to focus on risky, emerging technologies more than large companies. According to an study commissioned by the Small Business Administration: (1) "Small businesses develop more patents per employee than larger businesses, with the smallest firms, those with fewer than 25 employees, producing the greatest number of patents per employee"; and (2) "small firms are much more likely to develop emerging technologies than are large firms." ANTHONY BREITZMAN & DIANA HICKS, AN ANALYSIS OF SMALL BUSINESS PATENTS BY INDUSTRY AND FIRM SIZE i, v (Nov. 2008).

Today's anti-patent climate, unfortunately, coincides with the lowest period of "startup density" in 35 years. (Startup density is defined as the ratio of the number of new employer businesses in the U.S. divided by the total population in the U.S.) The drop in startup density, triggered by the financial crisis of 2007-08, has not recovered even as the U.S. economy has improved. The drop also happens to coincide with, and persists under, this Court's 2006 *eBay* decision (denying automatic injunctive relief for patent owners) and the Federal Circuit's 2007 *Seagate* decision (engrafting a two-part objective/subjective willfulness requirement on enhanced damages), neither of which tends to encourage startup creation by firms that rely far more on patents than large firms.



ROBERT W. FAIRLIE *ET AL.*, THE KAUFFMAN INDEX STARTUP ACTIVITY: NATIONAL TRENDS 2015, at 22.

Not only has the formation of new companies (births) slowed, the rate of firm failures (deaths) now exceeds births for the first time in 30-plus years.



IAN HATHAWAY & ROBERT E. LITAN, *DECLINING BUSINESS DYNAMISM IN THE UNITED STATES: A LOOK AT STATES AND METROS*, BROOKINGS INSTITUTE, at 1 (May 2014). This same study found that small firms are hurt disproportionately: "older and larger businesses are doing better relative to younger and smaller ones." *Id.*

III. This Court Has Already Set Workable Guideposts For Deciding Whether To Increase Patent Damages

The Court in this case is not writing on a blank slate. The Court has already identified some of the wide-ranging "circumstances of the case" where a judge might choose to exercise her discretion to increase damages under the 1836 and 1870 Patent

Acts. *See Topliff v. Topliff*, 145 U.S. 156, 174 (1892); *Tilghman v. Proctor*, 125 U.S. 136, 143-44 (1888); *Clark v. Wooster*, 119 U.S. 322, 326 (1886); *Teese v. Huntingdon*, 64 U.S. 2, 9 (1860); *Dean v. Mason*, 61 U.S. 198, 203 (1858); *Seymour v. McCormick*, 57 U.S. 480, 488-89 (1853); *Day v. Woodworth*, 54 U.S. 363, 372 (1851). A leading contemporary treatise, ALBERT A. WALKER, TEXT-BOOK OF THE PATENT LAWS OF THE UNITED STATES OF AMERICA §§ 567-568 (2d ed. 1889), cited and summarized many of those early cases. Those cases set forth the following guideposts for district courts to apply when enhancing damages, and they remain appropriate today:

A. Loss of customers or market share

In *Topliff v. Topliff*, 145 U.S. 156, 174 (1892), the defendant, formerly "a travelling sales agent of the plaintiffs," "in 1882 opened a rival establishment, and began the infringement of [plaintiffs'] patents." The defendant "made serious inroads upon [plaintiffs'] business" and "sold almost exclusively to those who had formerly been customers of the plaintiffs." *Id.* "Under these circumstances," this Court explained, "we should not have disturbed the decree of the court below, if it had seen fit to increase the damages." *Id.* Importantly, the Court would have upheld the increased damages, despite the existence of an objectively reasonable invalidity defense: "the question of patentable novelty," according to the Court, "is by *no means free from doubt*." *Id.* at 164 (emphasis added). Nor was there any evidence that the defendant *knew* of the patents, which plaintiffs acquired in 1884—two years after the defendant left the plaintiffs' employ. *Id.* at 172.

Therefore, in this Court's view, neither the defendant's knowledge of the patent, nor the absence of a reasonable defense, would have been preconditions for enhancing damages in this case.

B. Failure to act in good faith

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

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

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

suck the value from the invention and not pay the price").

C. Unnecessary expense, injury, or trouble

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

Certainly, some fraction of patent infringement lawsuits today are an unnecessary burden on the courts, because a reasonable person in the infringer's position would have taken precautions, such as licensing or designing-around the patent, instead of proceeding headlong with its infringement. *Cf.* RESTATEMENT (THIRD) OF TORTS: PHYS. & EMOT. HARM, § 2 (2010) ("A person acts recklessly in engaging in conduct if: (a) the person knows of the risk of harm created by the conduct or knows facts that make the risk obvious to another in the person's situation, and (b) the *precaution that would eliminate or reduce the risk involves burdens that are so slight relative to the magnitude of the risk* as to render the person's failure to adopt the precaution a demonstration of the person's indifference to the risk.") (emphasis added).

In this regard, an infringer's failure to obtain an opinion of counsel is relevant, not to show that the infringement was "willful" (which is disallowed under 35 U.S.C. § 298), but to show that the "expense," "injury" or "trouble" to the patent owner

and court was avoidable and "unnecessary" under *Teese* and *Day*.

D. Any special inconvenience

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

E. Stubbornly litigious infringer

This Court in *Day v. Woodworth*, 54 U.S. 363, 372 (1851) explained that enhancing damages is appropriate against a defendant who "has been stubbornly litigious." Large infringers, in particular, may try to exploit their asymmetric financial position against a small inventor by burying the plaintiff-inventor in litigation costs. *See, e.g.*, *Kellogg v. Nike, Inc.*, 2009 U.S. Dist. LEXIS 90432, *35 (D. Neb. Sept. 30, 2009) ("The court finds that Nike's

conduct in asserting and pursuing the claim of invalidity was frivolous and was intended to delay the proceedings, obfuscate the issues and increase [individual inventor] Kellogg's costs of litigation."); Stephen H. Haber & Seth H. Werfel, *Why Do Inventors Sell to Patent Trolls? Experimental Evidence for the Asymmetry Hypothesis*, Hoover IP² Working Paper No. 15009 (Jan. 23, 2015) (experimentally confirming that "asymmetry in financial resources between individual patent holders and manufacturers prevents individuals from making a credible threat to litigate against infringement").

F. Making infringement unprofitable

As stated in the 1889 treatise by Walker, "Increased damages may properly be awarded by a court, where it is necessary to award them in order to prevent a defendant infringer from profiting from his own wrong, whether that wrong was intentional or was unwitting." WALKER, *supra*, § 567. This rationale was confirmed in the 1946 Senate Report, which explained that "the present discretion to award triple damages . . . 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." S. Rep. No. 79-1503, at 2 (1946).

The Walker treatise gives the following explanation for the role of enhanced damages in making infringement unprofitable:

> The power conferred by the statute is general. It is not confined to awarding

> punitive damages, but is to be exercised "according to the circumstances of the case." Among the circumstances of patent cases, is the fact that the profits which defendants derive from their infringements, are often much larger than the actual damages which those infringements cause plaintiffs to sustain. If, in such a case, the defendant is forced to pay no more than the actual damages, it is clear that he will have derived advantage from his own wrong. It would be an imperfect system of law that would thus put a premium upon its own violation.

WALKER, *supra,* at § 567.

Under this rationale, Walker explains, the quintessential case for enhancing damages arises where (1) "no injunction happens to be proper," and (2) "the defendant's profits are larger than the plaintiff's damages." *Id.* In such a case, Walker explains, enhancing damages is "the only certain means of making infringement unprofitable to infringers." *Id.*

In other words, enhancing damages under these circumstances makes infringement less "efficient," and it changes the calculus of companies for whom it would otherwise be more profitable to infringe and litigate rather than to take a license. *See* Choate, *supra* (explaining that infringers "calculate the benefits of stealing someone else's patented technology against the possibility of getting caught, tried in court and being forced to pay damages and penalties").

CONCLUSION

For the foregoing reasons, the judgments of the court of appeals should be vacated and the cases remanded for further consideration of petitioners' enhanced damages requests.

Respectfully submitted,

ANDREW S. BALUCH
Counsel of Record
STEPHEN G. NAGY
Of Counsel
STRAIN & STRAIN PLLC
1455 Pennsylvania Ave., N.W.,
Suite 400
Washington, D.C. 20004
(202) 621-1872
andrew.baluch@strainpllc.com

Counsel for Amici Curiae