The Modern Pirate: Toward a New Standard for Enhanced Damages in Patent Law

Dmitry Karshtedt

Abstract

Many policymakers, judges, and scholars justify patent law on economic-utilitarian grounds. It is therefore unsettling that when it comes to damages for patent infringement in excess of the compensatory baseline, courts have followed an approach that reflects primarily moral, rather than economic, considerations. The culpability standard for awarding enhanced damages to successful patent plaintiffs under 35 U.S.C. § 284 includes actual knowledge of the patent-in-suit. This standard stems from pre-industrial tort actions designed to punish egregious interpersonal behaviors such as assault, piracy, libel, and seduction, and to preserve public tranquility. But as the law developed to cover “depersonalized” torts committed by corporate defendants and expanded from its moral foundations to embrace economic reasoning, the range of cases in which punitive damages could be awarded broadened significantly. Specifically, courts relaxed the culpability standard by making it less subjective, allowing punitive damages for generalized reckless disregard for the rights of others. The recklessness approach is now dominant in the fields of negligence and products liability, which typically allow for punitive damages without actual knowledge of a specific victim or defect, and in other civil actions—including copyright and trademark infringement. Patent law, however, continues to be an outlier by requiring actual, subjective knowledge of the plaintiff’s patent and, in so doing, in effect clings to the old moral-opprobrium model of punitive damages.

Not surprisingly, this standard has led to anomalous results. For one thing, the actual-knowledge approach to enhanced damages discourages firms from searching for and reading relevant patents, an unfortunate state of affairs given the widely recognized notion that disclosure is a core function of the patent system. Moreover, in tension with notions of fundamental fairness, this approach sometimes treats potential infringers who make good-faith attempts to ascertain the nature of the patent landscape in the fields in which they operate—by, for example, looking for patents that they may be infringing on the United States Patent and Trademark Office website—worse than those that decide to bury their heads in the sand and do no patent searching whatsoever. But there is a prospect for improvement in the law. A recent Supreme Court decision, Halo Electronics v. Pulse Electronics, arguably pushed a reset button on the jurisprudence of enhanced damages. Although it acknowledged the pre-industrial, subjective conception of punitive damages in its discussion of “deliberate” and “wanton” infringements, the Court also pointed to the modern conception when it repeatedly referred to recklessness as an acceptable standard of culpability for enhanced damages in patent law.

I argue that, in failing to heed this guidance, the lower courts are making a mistake. I contend that installing recklessness toward patent rights of others as the threshold level of culpability for enhanced damages is consistent with the modern conception of punitive damages and utilitarian policies that it reflects. If applied properly, the proposed standard will mitigate the current doctrine’s perverse effect of discouraging reading of patents, encourage cost-effective patent searches, and take account of the vast differences in patent landscapes between various industries.
# Table of Contents

**Introduction** ... 3


   A. The Purpose of Enhanced Damages: The Link to Punitive Damages in Tort ... 9
      1. *Historical development* ... 12
      2. *Other possible purposes of enhanced damages* ... 12

   B. Development of the Rules for Enhanced Damages in Patent Law ... 14
      1. *The Federal Circuit’s struggle with the culpability standard* ... 14
      2. *The Supreme Court steps in* ... 17

   C. Problems with the Knowledge Standard ... 18
      1. *It discourages reading of patents* ... 18
      2. *It promotes undesirable holdout* ... 20
      3. *It reinforces excessive focus on individual patents* ... 22
      4. *It probably distorts compensatory damages* ... 23

II. Supra-Compensatory Damages Outside Patent Law ... 25

   A. *Punitive Damages in Tort* ... 26
      1. *Historical developments* ... 26
      2. *Modern developments* ... 29
         a. Drunk driving ... 29
         b. Products liability and other corporate torts ... 30
         c. Copyright and trademark ... 34

   B. *The Role of the Tort Punitive Damages Standard in Interpreting Federal Statutes* ... 36
      1. *Methodological considerations* ... 36
      2. *Economic considerations* ... 38

III. Back to Patent Law: Toward a Proper Standard for Enhanced Damages ... 41

   A. *Halo’s endorsement of the true objective recklessness standard* ... 41
   B. Implementing Objective Recklessness ... 43

IV. Objections ... 47

   A. The Public-Interest Role of Enhanced Damages ... 47
   B. The Role of Discretion After Recklessness is Found ... 51

Conclusion ... 52
Introduction

Patent law, like many other areas of civil litigation, enables prevailing plaintiffs to obtain retrospective relief for the infringement of rights in the form of monetary damages.1 And, as in other areas of law, monetary relief can come in two forms—compensatory damages and additional damages that might generically be described as “supra-compensatory.”2 The goal of developing proper standards for measuring compensatory damages in patent law has generated a great deal of scholarly work in recent years,3 and that aspect of patent law has also seen important significant opinions from the Court of Appeals for the Federal Circuit, the court charged with exclusive jurisdictions over appeals in patent cases.4 But, in spite of controversy in this area, commentators generally agree on the fundamental purpose of compensatory patent damages. That purpose is unsurprisingly states that such damages must be “adequate to compensate for the infringement.”5

In contrast, when it comes to supra-compensatory damages in patent law, there seems to be no clear agreement on, and a great deal of confusion about, even the basic question of what they are for. The statute is unhelpful, saying only that “the court may increase the damages up to three times the amount found or assessed” as compensatory damages.6 The cases and scholarly commentary variously mention punishment, deterrence, and even adequate compensation7 as potential purposes of this so-called “treble damages” remedy.8 The Supreme Court in Halo

---

6 Id.
Electronics, Inc. v. Pulse Electronics, Inc., a recent decision addressing treble damages in patent law, appeared to focus on the punishment rationale. But it left the standard for awarding enhanced damages not clearly defined and perhaps not even self-consistent. The Court variously mentioned that such awards are reserved for “egregious cases typified by willful misconduct” and for infringer conduct that is “willful, wanton, malicious, bad-faith, deliberate, consciously wrongful, flagrant, or—indeed—characteristic of a pirate,” but also for a “full range of culpable behavior” that, in addition to the epithets quoted earlier, apparently also encompasses recklessness. The difficulty of ascertaining the theoretical underpinnings of treble damages, coupled with the Supreme Court’s opaque message with respect to this remedy, raises the unsettling prospect that this area of patent law might slide into intellectual incoherency. This would be a major problem for the patent system because careful calibration of damages is important for the fulfillment of its goal of optimizing innovation incentives.

The aim of this Article is to develop the proper standard for enhanced damages in patent law. This Article does so by looking to other areas of civil litigation, particularly tort, for inspiration. There might be at least two reasons for this move. First, this approach is sensible as a matter of statutory interpretation. Given the spare language of the section authorizing courts to award enhanced damages in patent cases (all we really have is the word “may”), we could naturally look to the background law against which the Patent Act was legislated. Indeed, as Professors William Baude and Stephen Sachs argued in a recent article, the common law can provide “substantive rules” for interpreting statutes whose language might otherwise be unclear. For this very reason, the courts have already enlisted the common law for help in interpreting the provisions of the Patent Act, including § 284, and other federal statutes.

Second, and perhaps more controversial, is the bearing of the thesis that the common law tends toward economically efficient outcomes on the problem of enhanced damages in patent

---

9 136 S. Ct. 1923.
10 Id. at 1934.
11 Id. at 1932.
12 Id. at 1933.
13 See supra notes 3-4 and accompanying text.
law. Even if, as suggested in a recent article, “the claim that all of negligence, or even all of common law, tends toward economic efficiency is too strong,” it nonetheless seems reasonable to posit that trends in a discrete area like supra-compensatory damages in tort might converge toward efficiency. Indeed, literature suggests that, in spite of the continued prevalence of the moniker “punitive damages,” the modern tort standard in this area serves “the efficiency-based goal of economic deterrence.” If so, then patent law might do well to adopt the tort standard. Although there are prominent dissenting voices, “[t]here is widespread agreement that the reason we have a patent system is utilitarian,” and, particularly, economic-utilitarian. Accordingly, unless there is reason to believe that patent law’s utilitarian goals might be better served by its own, unique set of rules with respect to enhanced damages, one might surmise that a rule that promotes economic efficiency in tort might also be a good fit for patent law.

The payoff of my analysis of the shifts in the purpose and standards for awarding enhanced damages in tort is a concrete fix in the rule for awarding supra-compensatory damages in patent law. That rule, adopted by the Federal Circuit and adhered to after Halo, holds that a victorious patent plaintiff cannot receive damages beyond the compensatory baseline unless it can prove that the defendant had actual knowledge of the patent-in-suit. More than this is required of the plaintiff who wishes to obtain enhanced damages, but actual knowledge must be proven as a baseline matter. I show that this heavily subjective approach is, in fact, based on tort law—but, the way it was in the 1850s! And I explain that, for various reasons, it is wrong for actual knowledge to be the threshold for patent enhanced damages. In its place, I offer the standard of reckless disregard for the patent rights of others, with damages sometimes allowed to be awarded in cases in which the infringer failed to discover a relevant patent (and therefore lacked actual knowledge). As I maintain, recklessness would be keyed to the characteristics of the industry in which the patentee and infringer operate, whether the infringement is concealed or open, and other factors that limit awards of enhanced damages to economically justifiable scenarios. This approach

---

24 See WesternGeco L.L.C. v. Ion Geophys. Corp., 837 F.3d 1358, 1362-63 (Fed. Cir. 2016) (discussing “subjective willfulness” and “objective reasonableness” as requirements of proving up enhanced damages in addition to actual knowledge). Basically, the inquiry comes down to adequate investigation of known patents.
25 See infra Part II; cf. Seymour v. McCormick, 57 U.S. (16 How.) 480 (1853) (applying contemporary tort law principles to enhanced damages under the enhanced patent damages statute then in force).
26 See infra Part I.
27 See infra Part I.
28 See infra Part III.
reflects the modern, largely objective tort treatment of punitive damages, which is appropriately rooted in economic efficiency.\textsuperscript{29}

To build up to my proposal, I will begin by canvassing the legal landscape in the nineteenth century, when courts began to decide cases involving enhanced damages in patent law. I will explain that the early history of punitive damages in tort reveals a focus on sanctioning, and perhaps ensuring full compensation for unquantifiable (e.g., dignitary or emotional) injuries from\textsuperscript{30} reprehensible interpersonal behaviors through which the defendant would exhibit extreme disregard for the rights of a specific victim. Examples include actions for assault, defamation, seduction, and other “insults,” with early tort law playing the criminal-law-like functions of providing an avenue for retribution of the wronged victim and preserving public tranquility.\textsuperscript{31} Although modern commentators have developed post-hoc economic justifications for awarding punitive damages for such intentional torts,\textsuperscript{32} statements from nineteenth century decisions actually allowing for enhanced damages brimmed with moral opprobrium.\textsuperscript{33} And while nineteenth-century opinions did acknowledge the deterrent effect of punitive damages, they made clear that such damages were, like criminal punishments, principally intended to channel societal outrage and forestall private vengeance.\textsuperscript{34}

Although enhanced damages for immoral behaviors toward specific victims are still awarded in torts cases,\textsuperscript{35} courts have relaxed the culpability standards by allowing punitive damages for generalized reckless indifference for the rights of others, based on a more objective “reason-to-know”-type standard and its cognates.\textsuperscript{36} Thus, the scope of punitive damages has unmistakably expanded from intent and actual knowledge to recklessness, and from victim specificity to non-specificity. This expansion tracks a shift in the purpose of punitive damages in tort from a central focus on expression of moral opprobrium and punishment to a greater consideration of deterrence, particularly in cases where the tort was committed by a corporation.\textsuperscript{37} In deciding whether to assess such damages, the courts sometimes explicitly turn to objective economic analysis, balancing precautions against the magnitude of the risks and gravity of harm.\textsuperscript{38}

\begin{thebibliography}{99}

\item[29] See \textit{supra} notes 22-23 and accompanying text.
\item[31] See \textit{infra} Part II.
\item[33] Hawk v. Ridgway, 33 Ill. 473, 475 (1864) (citing Foot v. Nichols, 28 Ill. 486, 488 (1862)); McWilliams v. Bragg, 3 Wis. 424 (1854).
\item[34] Hawk, 33 Ill. At 475; see also Merest v. Harvey, 128 Eng. Rep. 761, 761 (C.P. 1814) (“It goes to prevent the practice of duelling, if juries are permitted to punish insult by exemplary damages.”).
\item[36] See \textit{infra} Part II.
\item[37] For a leading case law example, see Schmidt v. Pine Tree Land Dev. Co., 631 P.2d 1373, 1374-75 (Or. 1981).
\item[38] Thiry v. Armstrong World Indus., 661 P.2d 515, 518-19 (Okla. 1983). The calculus of punitive damages differs from ordinary negligence is that the risk and gravity of harm greatly, rather than just barely, outweigh the social benefit of the activity. \textit{Cf.} United States v. Carroll Towing, 159 F.2d 169 (2d Cir. 1947). \textit{But cf.} Owens-Illinois, Inc. v. Zenobia, 601 A.2d 633 (Md. 1992) (applying actual knowledge standard based on the need to limit liability in a clear manner); \textit{see also} Owen, \textit{supra} note 7 (defending this approach).
\end{thebibliography}
In some cases, this calculus has allowed for enhanced damages awards in cases where the defendant did not adequately test a product before putting it out on the market, or failed to discover a hidden defect.\textsuperscript{39} Patent law, however, continues to be an outlier by requiring actual, subjective knowledge of the plaintiff’s patent and, in so doing, in effect clings to the old moral-opprobrium (and interpersonal-animus) model of punitive damages.\textsuperscript{40}

I show that besides failing to reflect modern tort law developments, the actual-knowledge approach causes numerous policy problems in the context of the goals of the patent system. Because it sometimes discourages firms from searching for and reading relevant patents, this framework is opposed to patent law’s fundamental purpose of encouragement of dissemination and disclosure of information.\textsuperscript{41} Indeed, in tension with notions of fundamental fairness, the current rule can treat potential infringers who make good-faith attempts to ascertain the nature of the patent landscape in the fields in which they operate—by, for example, looking for patents that they may be infringing on the United States Patent and Trademark Office website—worse than those that decide to bury their heads in the sand and do no patent searching whatsoever. Because the current rule effectively rewards firms for refusing to search for patents, it can lead to socially unproductive forms of holdout and “market bypass”\textsuperscript{42}—which involves undesirable reliance on litigation rather than negotiation.\textsuperscript{43} And at least in some fields of technology, the rigid actual knowledge test interferes with patent law’s role in promoting innovation by disabling a trial court’s discretion to award enhanced damages for reckless non-searches, a result that in turn underdeters firms from engaging in activities that result in uncompensated infringement.\textsuperscript{44} The inefficiency of this rule is perhaps unsurprising because it diverges strongly from accumulated wisdom of the common law, making patent law a severe outlier in the way it deals with enhanced damages.\textsuperscript{45} Although, at times, the Federal Circuit appeared to adopt an “objective recklessness” standard for determining eligibility for supra-compensatory damages by nodding to non-patent sources,\textsuperscript{46} I explain that this standard does not resemble what objective recklessness actually looks like in other areas of law.\textsuperscript{47}

My proposed recklessness approach, to be sure, has its weaknesses. It is likely, for example, to increase litigation costs and, as the more open-ended standard develops, some of the more risk-averse firms might be overdeterred and perform more than optimal amount of searching.\textsuperscript{48} But I explain that, if the recklessness inquiry is conducted properly, the proposal’s harms might be

\textsuperscript{39} See, e.g., Gryc v. Dayton-Hudson Corp., 297 N.W.2d 727 (Minn. 1989) (punitive damages for inadequate testing for flammability proper—even though the tests complied with the federal standard); Leichtamer v. American Motors Corp., 424 N.E.2d. 568 (Ohio 1981) (punitive damages for failing to test car for rollovers proper); cf. Thiry, 661 P.2d at 517 (discussing adequate testing).

\textsuperscript{40} See supra notes 24-26 and accompanying text.

\textsuperscript{41} See infra Part I.C.1.


\textsuperscript{43} See infra Part I.C.2

\textsuperscript{44} See infra Part I.C.4

\textsuperscript{45} See infra notes 19-20 and accompanying text.

\textsuperscript{46} In re Seagate Tech., 497 F.3d 1360 (Fed. Cir. 2007), abrogated by Halo Elecs., Inc v. Pulse Elecs., Inc., 136 S. Ct. 1923, 1928 (2016).

\textsuperscript{47} See infra Part II.

\textsuperscript{48} See infra Part V.
outweighed by its benefits.\textsuperscript{49} And I also contend that the proposal is consonant with the Supreme Court’s guidance that trial courts must exercise discretion in awarding enhanced damages,\textsuperscript{50} and that patent law is not to be an outlier that adopts rules that are exceptional or disconnected from the larger legal system.\textsuperscript{51} Finally, I believe that, as the case law settles and takes account as to which sorts of behaviors are truly reckless because of their social inefficiencies, overdeterrence will be less likely. Ultimately, the proposed approach reflects the reality that modern piracy includes not only outright theft, but other socially unproductive conduct like reckless failure to advert to the rights of others.

The remainder of the Article proceeds in five parts. Part I traces the development of the standard for enhanced damages in patent law and pinpoints how the misguided actual knowledge rule was adopted. It catalogues the problems with this rule and explains that although a recent Supreme Court decision, \textit{Halo v. Pulse}, had the promise of pushing a reset button on the jurisprudence of enhanced damages, lower courts have continued to adhere to the old rule. Part II discusses approaches to supra-compensatory damages in tort law and other areas with an eye to what patent law can learn from them. In particular, this Part catalogues the increasing shift from subjective to objective standards of culpability. Part III returns to patent law, applying this learning and suggesting an approach to implementing the recklessness standard for enhanced damages. It explains that this standard is likely consistent with the Supreme Court’s latest guidance in \textit{Halo} and shows that, if properly implemented with industry characteristics and other economic factors into account, it will more effectively serve the patent law’s goal of promoting innovation than the current rule. Part IV addresses several objections, including questions about the appropriateness of using enhanced damages to promote social goals and concerns about the allocation of power between judges and juries in the enhanced damages determination. Part V concludes.


The damages section of the Patent Act is exceedingly simple. This section, 35 U.S.C. § 284, says (among other things) that “upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringed,” and that “in either event the court may increase the damages up to three times the amount found or assessed.”\textsuperscript{52} The former provision authorizes awards of compensatory damages and the latter, supra-compensatory damages up to an amount equal to three times the compensatory baseline. The statute says nothing with respect to the nature of supra-compensatory damages—are they punitive, or do they have another role?—nor

\textsuperscript{49} See infra Part III.
\textsuperscript{50} \textit{Halo}, 136 S. Ct. at 1928.
as to whether proofs in addition to those needed to receive compensatory damages are required.\textsuperscript{53} It is important to note at the outset that 35 U.S.C. § 154(d), which governs compensatory damages for so-called “provisional” patent rights (i.e., damages for infringement of patents that have not yet issued) and is referenced in § 284, requires “actual notice of the published patent application.”\textsuperscript{54} Congress, when it codified § 154 and re-codified the enhanced damages provision in the 1952 Patent Act, knew how to mandate actual notice explicitly, but did not add any such language in § 284. But, as we will see, courts have acted as though the words “actual notice” were present in § 284 as well.\textsuperscript{55}

The history of the legislation involving this provision includes the turn that treble damages were once mandatory, but have been permissive since 1836.\textsuperscript{56} But the determination of its purpose and requirements to establish an entitlement to enhanced damages have been worked out principally by judges. And, at least since the beginning of the existence of the Federal Circuit—and before—there have been loud complaints about enhanced damages doctrine from both patent plaintiffs and defendants.\textsuperscript{57} This Part traces the development of enhanced damages in patent law and discusses problems with the doctrine.

A. The Purpose of Patent Enhanced Damages: The Link to Punitive Damages in Tort

1. Historical development

Patent law once had mandatory treble damages, a rule that perhaps reflected the insight that damages awarded as a result of a lawsuit should be greater than damages that the patentee would receive pursuant to a negotiated license.\textsuperscript{58} The Patent Act of 1836 changed the rule, declaring that “it 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 the amount thereof, according to the circumstances of the case.”\textsuperscript{59} The very first Supreme Court case to interpret this provision, \textit{Hogg v. Emerson}, appeared to assume that treble damages still represented the baseline award, but noted that “a fair ground existed for a mitigation below

---


\textsuperscript{55} \textit{See infra} Part I.B.


\textsuperscript{58} \textit{Act of April 17, 1800}, ch. 25, 2\textit{ Stat.} 37 (1800) (emphasis added).

that amount, if the maker of the [infringing] machine appeared in truth to be ignorant of the existence of the patent right, and did not intend any infringement."60 It is as if the burden were on the defendant to shield itself from enhanced damages by showing that the infringement was innocent or at least unintentional. As we will see, though Hogg has never been explicitly overruled, the judicial attitude has changed to shift the burden to the patentee to show that it is entitled to enhanced damages. Nevertheless, cases like Hogg help develop a more nuanced picture of enhanced damages in patent law that is sometimes painted by commentators. Indeed, Hogg is not alone in noting that enhanced damages capped at a small multiple of compensatories might have a quasi-compensatory function, suggesting further that the high level of culpability one sees for unlimited punitive damages might not be required.61

Whatever the purpose of the enhanced damages provision of the Patent Act, its language has not changed much since 1836. As explained by Matthew Powers and Steven Carlson, “[s]ubsequent amendments to the patent laws maintained the provision of the Patent Act of 1836 that trial judges should have the discretion to increase a damages award by up to three times the jury verdict.”62 There were important changes to compensatory damages—for example, Congress in 1946 eliminated accounting as a potential measure of such damages—but the permissive language with respect to enhanced damages remained throughout.63 As a result, trial courts since 1836 have been faced with the question of how to justify an exercise of discretion to enhance damages, and appellate courts have had to deal with the issue of what authority to draw upon to set limits on that discretion—for, as the Supreme Court in Halo succinctly explained, “discretion is not whim.”64

The Halo Court’s roadmap for guiding trial courts’ exercise of discretion in awarding enhanced damages borrows heavily from the law of punitive damages in tort. Although the connection to this aspect of tort law is not made explicitly, it is unmistakable. For example, the Court relied on the “wanton and malicious” formulation in another enhanced patent damages case decided in 1853. In that case, Seymour v. McCormick, the Court approvingly cited the 1836 amendment to the damages section of the Patent Act.65 The Court, in some tension with Hogg, suggested that the earlier rule mandating trebling of damages no matter what the circumstances was “manifestly unjust,” for it subjected to the “same penalty” “the defendant who acted in ignorance or good faith” and “the wanton and malicious pirate.”66 The Court further noted that “where the injury is wanton or malicious, a jury may inflict vindictive or exemplary damages, not to recompense the plaintiff, but to punish the defendant.”67 And so began, in the words of one commentator, the proliferation of “mental and emotional states in United States patent law.”68

60 Hogg v. Emerson, 52 U.S. 587, 607 (1850) (emphasis added).
61 See infra Section I.A.2.
66 Id. at 488.
67 Id. at 489.
The Court cited no authority for this conclusion, but the “wanton/malicious” language is telling. The same formulation was, for example, used in the previous decade by the Connecticut Supreme Court in *Linsley v. Bushnell*, in an action involving “trespass on the case”—a precursor to the modern tort of negligence. In that case, the court noted that “that vindictive damages, or smart money, may be, and is, awarded, by the verdicts of juries, in cases of wanton or malicious injuries.” And this formulation, even including a reference to “smart money” and an explicit nod to the common law, was used by the United States Supreme Court itself just three years before *Seymour* in *Day v. Woodworth*.

Outlining the same principles in somewhat more contemporary-sounding language, Theodore Sedgwick’s leading treatise on damages explained the place of enhanced civil damages as follows:

[I]n all cases of civil injury, and breach of contract, with the exception of those cases of trespasses or torts, accompanied by oppression, fraud, malice, or negligence so gross as to raise the presumption of malice, where the jury have a discretion to award exemplary or vindictive damages; in all other cases the declared object is to give compensation to the party injured, for the actual loss sustained.

The wanton/malicious formulation the Court relied upon in *Seymour*, and referred to with approval in *Halo*, thus strongly suggests an analogy between enhanced damages in patent law and punitive damages in tort. The move is not surprising, for the Court on more than one occasion referred to patent infringement as a tort and drew repeatedly on tort principles in other contexts, as when it sought to develop intent standards for, for example, indirect infringement. Given the historic link between tort law and the law of patent infringement, the law of punitive damages in tort has continued to be a reasonable, and perhaps even necessary, source of authority for doctrinal development in this area. In doing so, however, it is critically important to get the

---

69 15 Conn. 225, 236 (1842).
71 *Linsley*, 15 Conn. at 236.
73 *Theodore Sedgwick, 1 A Treatise on the Measure of Damages, or, an Inquiry into the Principles Which Govern the Amount of Compensation Recovered in Suits at Law* 27-28 (1847) (emphasis is in original).
74 *Halo Elecs., Inc. v. Pulse Elecs., Inc.*, 136 S. Ct. 1923, 1928 (2016) (quoting *Seymour*, 57 U.S. at 489) (“Awards of enhanced damages ... are ... designed as a ‘punitive’ or ‘vindictive’ sanction for egregious infringement behavior. 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.”).
75 See, e.g., *Carbice Corp. v. Am. Patents Dev. Corp.*, 283 U.S. 27, 33 (1931) (“Infringement, whether direct or contributory, is essentially a tort, and implies invasion of some right of the patentee.”); *Dowagiac Mfg. Co. v. Minn. Moline Plow Co.*, 235 U.S. 641, 648 (1915) (“[T]he exclusive right conferred by the patent was property and the infringement was a tortious taking of a part of that property ...”).
77 See supra notes 14-23 and accompanying text.
78 See, e.g., *Read Corp. v. Portec, Inc.*, 970 F.2d 816 (Fed. Cir. 1992) (relying on the tort case *Hodges v. S.C. Toof & Co.*, 833 S.W.2d 896, 900–01 (Tenn. 1992)); see also *Baude & Sachs, supra* note 14, at 1104-07 (arguing that courts must look to “unwritten law” to interpret ambiguous statutes).
background law right, for the failure to do so would lend the rules adopted in patent cases a false veneer of authority.

Indeed, although the Patent Act says very little about the conditions under which enhanced damages are to be awarded, the permissive enhanced damages provision was first passed—and continued to be passed—against the background principles of civil liability. The reason such principles are important to patent law are, first, that it seemed unlikely that Congress would have intended for patent law to be unique and completely disconnected from other areas of law on issues—like enhanced damages—that appear throughout the law. And second, it would be a mistake for courts deciding patent cases to miss out on the accumulated learning from the common law with respect to standards for awarding supra-compensatory damages and in general. Therefore, the fact that the Supreme Court in 1853 turned to the culpability level of punitive damages for “trespass” to fill the gaps in the patent statute is not surprising. The Court in *Halo* followed this line of precedent, adopting a decidedly tort-style punitive damages conception of supra-compensatory damages in patent law:

> Awards of enhanced damages . . . are . . . designed as a “punitive” or “vindictive” sanction for egregious infringement behavior. 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.  

The question remains, however, whether there has been new learning in this area since 1853. As Part II explains, the answer to this question is a resounding yes, and Part III applies the learning to patent law. The discussion that concludes this section introduces some challenges to punitive damages view of enhanced damages in patent law, and the remainder of Part I addresses the development of, and some difficulties with, the current standard.

2. Other possible purposes of enhanced damages

The *Halo* decision constrains enhanced damages in patent law to the punitive damages rationale and this view, of course, binds the lower courts. But before moving on to consider *Halo*’s guidance, it is worth examining some alternative possibilities for the role of enhanced damages in patent law. Indeed, a significant line of precedent leading up to *Halo* ascribed what might be called a quasi-remedial function to patent enhanced damages. In *Day*, for example, the Supreme Court noted that damages might be increased when the defendant “has been stubbornly litigious, or has caused unnecessary expense and trouble to the plaintiff.” To the same effect was *Clark v. Wooster*, where the Court opined that “the 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” could be remedied “by the court under the authority given to it to increase the damages.” And, in *Stockwell v. United States*, a customs case decided in 1871, the Supreme Court used the law of

---

82 *119 U.S. 322, 326 (1886).*
patent infringement as an example of a regime where “a party injured is allowed to recover in a civil action double or treble damages” and noted that “it will hardly be claimed that these are penal actions requiring the application of different rules of evidence from those that prevail in other actions for indemnity.”

In the twentieth century, a district court in *Activated Sludge v. Sanitary District of Chicago*, relying in part on an old Supreme Court copyright case, likewise concluded that the enhanced damages provision of the patent act is “remedial and not penal.” This interpretation was cited with seeming approval in other contemporary decisions and law review articles. For example, an article titled *Exemplary Damages in the Law of Torts* distinguished enhanced damages in patent law from punitive damages in tort, noting that “in patent infringement and antitrust cases, in which the actual injury to the plaintiff may be significantly more than he can establish, double- or treble-damage awards provide the plaintiff with a rough measure of compensation for these additional injuries.” This view appeared as late as 1981: In *Trio Process Corp. v. L. Goldstein’s Sons*, the Third Circuit (through Judge Rosenn) explained that enhanced damages are not limited to “willfulness,” however defined, thereby suggesting a non-punitive function to such damages. On the facts of *Trio Process* itself, the court concluded that the enhancement was punitive “because of defendant’s bad faith,” but made it clear that “the enhancement provision of the statute is designed to permit, *inter alia*, adequate compensation for an infringement where strict legal rules would not afford it.”

The Supreme Court in *Halo*, however, rejected remedial conceptions of enhanced damages in patent law. Specifically, it explained that monetary awards in connection with bad-faith litigation behavior of the infringer are now the province of 35 U.S.C. § 285, the attorneys’ fees provision of the Patent Act. Given the significant line of case law suggesting that enhanced damages in patent law are sometimes quasi-remedial rather than “penal,” however, without a limitation of the possible compensatory function as to attorneys’ fees, this conclusion is probably too facile. This flaw in the *Halo* opinion is exacerbated by the Court’s failure to grapple with *Hogg v. Emerson*, the case that stated that treble damages was the baseline. Nonetheless, developments in the common law of tort, on which the Court based at least some of its discussion, introduced a third major function of enhanced damages—deterrence. I will consider that issue in detail in Part II, showing that the focus of punitive damages in modern tort law is, despite the moniker “punitive,” really on deterrence and economic efficiency, in addition to moral considerations underlying their function as punishment. The following section provides a further foundation for

83 80 U.S. (13 Wall.) 531, 547 (1871).
85 See, e.g., Note, supra note 7.
88 Id.
90 52 U.S. 587, 607.
91 See infra Part II.B.
that discussion by explaining the lower courts’ extended struggle with the standard for enhanced damages.

B. Development of the Rules for Enhanced Damages of Patent Law

1. The Federal Circuit’s struggle with the culpability standard

The previous section considered the purpose of enhanced damages in patent law, and this section considers the development of the legal standard for awarding such damages. But the latter, of course, depends on the former. As noted, prior to the creation of the Federal Circuit, there was a diversity of views as to whether enhanced damages in patent law were punitive or compensatory. In his well-known treatise, Donald Chisum adverted to that history, noting that “[w]hether the purpose of an increased damage should be exemplary (i.e. to punish and deter flagrant acts of patent infringement) or compensatory (i.e., to compensate the patent owner for immeasurable expenses and losses) is a longstanding controversy in the law.”92 Given the availability of these potential alternatives, the analysis in Underwater Devices, Inc. v. Morrison-Knudsen Co., the Federal Circuit’s first enhanced damages case, leaves much to be desired. With little discussion, the court simply picked a Tenth Circuit case that assumed that enhanced damages could be awarded only for “willful infringement.”93 The lack of analysis is inexcusable given that the court was aware of Trio Process and even cited it for the proposition that the Third Circuit “concluded that the enhanced portion was punitive in character”94 on the specific facts of that case, suggesting the possibility that enhanced damages in patent law could have multiple purposes.

More significantly for the purposes of this Article, the Underwater Devices court (again without analysis), assumed that “actual notice of another’s patent rights”95 was required for enhanced damages. A study of the citation chain of the Federal Circuit’s early adoption of the rule dead-ends at a district court decision which, without citation, used the formulation “intentional, willful, and deliberate.”96 I will show that this phrasing, focusing on subjective intent, is rooted in the nineteenth century conception of punitive damages as sanctioning opprobrious interpersonal behavior, when tort law was still much closer to its criminal law roots.97 And while other aspects of the test for enhanced damages changed over time, the actual knowledge rule has been a constant in patent law since 1983.

Given that proof of subjective mental states is generally challenging, the Federal Circuit’s requirement of proof of actual knowledge of the patent for enhanced damages would suggest that Underwater Devices should have drawn the scorn of patent plaintiffs. But in fact, it was patent defendants who had bigger problems with this case. This is because this case also decided that awareness of the patent would trigger an “affirmative duty . . . to seek and obtain competent legal

92 DONALD S. CHISUM, CHISUM ON PATENTS § 20.03[4][b][iii], at 20-341 (2016).
93 717 F. 2d 1380 (Fed. Cir. 1983).
94 Id.
95 Id.
97 See infra Part II.
advice from counsel before the initiation of any possible infringing activity.\textsuperscript{98} What is more, under this regime, juries were required to draw an adverse inference against the infringer if it did not produce such an opinion-of-counsel letter.\textsuperscript{99} This early approach therefore forced patent defendants to generate significant expenses associated with these opinion letters to counter claims of willfulness.\textsuperscript{100} Perhaps more perniciously, production of the opinion letter would further entail waiver of uncertain scope with respect to attorney-client communications related to the defendant’s positions, sometimes even including communications with trial as opposed to merely opinion counsel.\textsuperscript{101} Numerous commentators criticized this “unfair dilemma” and called for the abandonment of the adverse inference rule, and more.\textsuperscript{102}

Substantively, the Federal Circuit’s rules with respect to what sorts of conduct would fail this “affirmative duty of care” were muddled. In one case, the court ruefully noted that “various criteria have been stated for determining ‘willful infringement,’”\textsuperscript{103} and an article co-authored by a well-known patent attorney, William Lee, referred to a “plethora of willfulness formulations.”\textsuperscript{104} Some cases came close to articulating a negligence-type standard of willful infringement (though, to be sure, the negligence evaluated with respect to a patent actually known to the defendant), while others appeared to require a higher level of culpability. More generally, beyond actual knowledge, it was not clear what the culpable mental state for willfulness should be.\textsuperscript{105} This uncertainty exacerbated the procedural problems created by the adverse inference rule and the ill-defined scope of waiver, generating further dissatisfaction with the willfulness doctrine.\textsuperscript{106}

The Federal Circuit eventually responded to these critiques, though the cure turned out to be arguably worse than the disease. As an initial matter, the court quite properly abrogated the adverse inference rule and limited the scope of the privilege waiver.\textsuperscript{107} But it went even further, changing the substantive standard to establish entitlement to enhanced damages. In \textit{In re Seagate}, the court adopted a multi-layer framework for proving willfulness.\textsuperscript{108} First, the plaintiff would need to show that the infringer lacked an objectively reasonable legal theory of noninfringement and invalidity, a definition of objective recklessness that is vastly at odds with the way this concept is defined in other areas of law.\textsuperscript{109} This approach allowed accused infringers to escape enhanced damages based on reasonable (essentially, non-frivolous) arguments developed in litigation, long after the choice to infringe (or to continue to infringe) was made. Moreover, the “objective” prong

\textsuperscript{98} Underwater Devices Inc. v. Morrison-Knudsen Co., 717 F. 2d 1380, 1389-90 (Fed. Cir. 1983).
\textsuperscript{99} Kloster Speedsteel AB v. Crucible Inc., 793 F.2d 1565 (Fed. Cir. 1986).
\textsuperscript{100} Lemley & Tangri, \textit{supra} note 7.
\textsuperscript{101} \textit{In re EchoStar Commc’ns Corp.}, 448 F.3d 1294 (Fed. Cir. 2006).
\textsuperscript{102} Lee & Cogswell, \textit{supra} note 57; Lemley & Tangri, \textit{supra} note 7.
\textsuperscript{104} Lee & Cogswell, \textit{supra} note 57, at 427.
\textsuperscript{105} \textit{Id.} at 424-30.
\textsuperscript{106} See \textit{supra} note 57 and accompanying text.
\textsuperscript{107} \textit{Cf. Knorr-Bremse Systeme Fuer Nutzfahrzeuge v. Dana}, 383 F.3d 1337 (Fed. Cir. 2004) (en banc) (abrogating \textit{Kloster}). With respect to waiver, Congress afterwards went further and passed a section stating that “[t]he failure of an infringer to obtain the advice of counsel with respect to any allegedly infringed patent, or the failure of the infringer to present such advice to the court or jury, may not be used to prove that the accused infringer willfully infringed the patent. 35 U.S.C. § 298 (2012).
\textsuperscript{108} 497 F.3d 1360 (Fed. Cir. 2007) (en banc).
\textsuperscript{109} See \textit{supra} Part II.A.
was treated as a pure question of law, making it amenable to summary judgment grants and ready appellate reversals on *de novo* review.\(^{110}\) In one case, the Federal Circuit vacated an award of enhanced damages where an attorney for the plaintiff-appellee admitted *in an appellate oral argument* that his opponent had a non-frivolous defense of nonobviousness.\(^{111}\) Second, in addition to clearing this hurdle, the plaintiff had to prove that the infringer acted with subjective bad faith.\(^{112}\)

Proof of these two prongs—with clear and convincing evidence, no less—would establish willfulness and therefore eligibility for enhanced damages under *Seagate*.\(^{113}\) But that’s not all. Even if all these requirements were met, the trial judge still had the discretion not to award any enhanced damages based on the so-called *Read* factors, which included asking, among other things, whether the infringer copied the commercial embodiments of the patentee’s product, how the infringer behaved during litigation, how close the case was, whether the infringer took remedial action, and whether the infringer attempted to conceal its misconduct.\(^{114}\) Based on the analysis of these factors, the trial court could award anywhere from no supra-compensatory damages to full treble damages permitted by the statute.

The *Seagate* framework did relieve some of the burden on patent defendants by making it possible to defeat allegations of willfulness without opinion letters. But it also became a target of numerous critiques. First, as a practical matter, the approach made it difficult for plaintiffs to obtain enhanced damages, which, according to some commentators, resulted in underdeterrence of even blatant infringement.\(^{115}\) Second, it turned quintessentially factual questions with respect to culpability into questions of law,\(^{116}\) thereby improperly enabling the Federal Circuit to exceed its role as an appellate court.\(^{117}\) Third, and more generally, the framework simply did not rest on a legally solid ground. Other than some discrete provisions to deter sham litigation,\(^{118}\) there was no precedent for the *Seagate* framework anywhere in the law—in patent (prior to *Seagate*), in other areas of intellectual property, in tort, or otherwise.

Unsurprisingly, the Supreme Court eventually overturned the *Seagate* framework. The writing was on the wall when, in a pair of cases decided in 2014, the Court unanimously rejected an analogous approach that the Federal Circuit adopted for awarding attorney’s fees in patent cases under 35 U.S.C. § 285.\(^{119}\) After the Federal Circuit refused to take an opportunity for course-


\(^{111}\) Lee v. Mike’s Novelties, Inc., 543 F. Appx. 1010, 1017 (Fed. Cir. 2013) (nonprecedential).

\(^{112}\) *Seagate*, 497 F.3d at 1371.

\(^{113}\) *Id.* at 1374.

\(^{114}\) Read Corp. v. Portec, Inc., 970 F.2d 816, 828 (Fed. Cir. 1992).

\(^{115}\) *See supra* note 57.

\(^{116}\) *Bard*, 682 F.3d at 1006-07.

\(^{117}\) Highmark Inc. v. Allcare Health Mgmt Sys, Inc., 701 F.3d 1351, 1356 (Fed. Cir. 2012) (Moore, J., dissenting from the denial of rehearing en banc).

\(^{118}\) *Cf.* Profl’ Real Estate Investors, Inc. v. Columbia Pictures Indus., Inc., 508 U.S. 49 (1993); CRST Van Expedited v. Werner Enters., 479 F.3d 1099 (9th Cir. 2007).

correction of its willfulness doctrine, the Supreme Court granted certiorari in a pair of § 284 cases and unanimously vacated the Federal Circuit’s judgments, killing the *Seagate* rule.

2. The Supreme Court steps in

*Halo*, one of the § 284 cases that made it to the Supreme Court, turned on the “objective recklessness” prong of *Seagate*. In *Halo*, the patents-in-suit were directed to modular pieces for producing electronic circuits, and plaintiff and defendant were direct competitors in the field of surface-mounting technology for making the circuits. The defendant, Pulse, was aware of the relevant patents as far back as 1998 and received letters from Halo offering to license the patents in 2002. According to Halo, at that point, “although a Pulse engineer conducted a ‘cursory’ invalidity analysis and determined the patents were invalid, there was no evidence that a decision maker at Pulse relied on that engineer’s analysis to make a decision to continue selling the accused products.” The trial court, however, reversed a jury finding of willfulness because “Pulse did not prove obviousness by clear and convincing evidence, but presented enough evidence of obviousness such that this defense was not objectively baseless, or a ‘sham.’” The court explained that, under *Seagate*, the fact that Pulse ignored Halo’s patent demand “does not undermine Pulse’s reasonable obviousness defense” because it was “relevant [only] to the subjective element of [willful] infringement.” The Federal Circuit agreed, concluding that although “[t]he record shows that although Pulse was ultimately unsuccessful in challenging the validity of the Halo patents, Pulse did raise a substantial question as to the obviousness of the Halo patents.”

In its opinion vacating the Federal Circuit’s judgment in *Halo*, the Supreme Court abrogated the *Seagate* standard. First, the Court characterized the *Seagate* approach as requiring three separate inquiries subject to “trifurcated appellate review”: “objective recklessness,” “subjective knowledge,” and “the ultimate decision—whether to award enhanced damages.” The Court then launched into its critique of *Seagate* by pointing back to *Octane Fitness*, one of the § 285 cases the Supreme Court decided just two years before. It explained that *Octane*, in which the Court rejected a test “requiring that a claim asserted be both objectively baseless brought in subjective bad faith,” “arose in a different context but points in the same direction.” As in *Octane*, the Court rejected this “rigid formula.”

The Court held that “the principal problem with *Seagate*’s two-part test is that it requires a finding of objective recklessness in every case before district courts may award enhanced damages.” This approach, therefore, removed from the ambit of enhanced damages the core,

---

120 Halo Elecs., Inc. v. Pulse Elecs., Inc., 769 F.3d 1371 (Fed. Cir. 2014), reh’g en banc denied, 780 F.3d 1357 (Fed. Cir. 2015).
123 *Id.* at *15.
124 *Id.* at *16.
125 *Halo*, 769 F.3d at 1382. Similar issues were raised in a companion case, *Stryker Corporation v. Zimmer, Inc.*, 782 F.3d 649 (Fed. Cir. 2015), which went to the Supreme Court along with *Halo*.
126 *Halo*, 136 S. Ct. at 1930.
127 *Id.* at 1934.
128 *Id.* at 1932.
subjectively bad behaviors that were subject to such damages dating back to the early tort cases.\textsuperscript{129} Emphasizing that the Federal Circuit’s contrary approach impermissibly interfered with trial courts’ discretion, the Court concluded after \textit{Halo} that “[t]he subjective willfulness of a patent infringer, intentional or knowing, may warrant enhanced damages, without regard to whether his infringement was objectively reckless.”\textsuperscript{130} And for good measure, the Court also criticized the Federal Circuit’s mutant approach to objective recklessness when it explained that the defendant’s culpability “is generally measured against the knowledge of the actor at the time of the challenged conduct,”\textsuperscript{131} not at the time of litigation.

By discussing objective recklessness, the Court necessarily made clear that subjective willfulness was not necessary for enhanced damages. Indeed, the Court noted that § 284 “allows district courts to punish the full range of culpable behavior.”\textsuperscript{132} While the Court said less about routes to enhanced damages other than subjective willfulness, it provided some clues. The Court cited with approval a discussion of recklessness from a case that in turn relied on the \textit{Restatement Second of Torts}, which defined behavior as reckless if a person “acts ‘knowing or having reason to know of facts which would lead a reasonable man to realize’ his actions are unreasonably risky.”\textsuperscript{133} The “having reason to know” language plainly suggests something less than actual knowledge (of what specifically, though, is unclear), and a reference to “a reasonable man” connotes an objective inquiry.

Unfortunately, this cursory reference cannot be fully understood without what lies behind the \textit{Restatement} provision cited by the Court. I will conduct the appropriate analysis in Part II, and show in Part III how \textit{Halo}’s reference to the \textit{Restatement}’s definition of recklessness should be applied in patent law in view of modern tort developments. In the meantime, I note that the Federal Circuit, again with little analysis, concluded that “[k]nowledge of the patent alleged to be willfully infringed continues to be a prerequisite to enhanced damages.”\textsuperscript{134} In the next section, I will explain why this standard is highly problematic as a policy matter.

C. Problems with the Knowledge Standard

1. \textit{It discourages reading of patents}

The “knowledge of the patent” gloss on the enhanced patent damages statute is problematic for numerous reasons. For one thing, actual knowledge as the trigger of liability has the effect of discouraging the activities of searching for, reading, and analyzing patents. Commentators have voiced this concern with respect to the Federal Circuit doctrine pre- and post-\textit{Seagate},\textsuperscript{135} and the concerns persisted after the Supreme Court issued its decision in \textit{Halo}. Professor Lisa Ouellette, in a blog post issued in the wake of the Supreme Court’s opinion, suggested that “as lower courts flesh out the meaning of \textit{Halo}, they recognize the potential harm from firms deciding that the risks

\textsuperscript{129} See \textit{infra} Part II.
\textsuperscript{130} \textit{Id.} at 1933.
\textsuperscript{131} \textit{Id.} (citing \textit{RESTATEMENT (SECOND) OF TORTS} § 8A (1965) and W. PAGE \textit{KEETON ET AL., PROSSER AND \textit{KEETON ON THE LAW OF TORTS}} § 34, at 212 (5th ed. 1984)).
\textsuperscript{132} \textit{Id.}
\textsuperscript{133} \textit{Id.}
\textsuperscript{134} WBIP, LLC v. Kohler Co., 829 F.3d 1317, 1341 (Fed. Cir. 2016).
\textsuperscript{135} See \textit{supra} note 57.
of enhanced liability from reading patents outweigh the teaching benefit those patents could otherwise provide."\textsuperscript{136} Professor Ouellette’s comments echo, for example, the Federal Trade Commission’s concern during the pre-Seagate era (which Halo may have restored to a degree) that exposure to punitive damages triggered upon the reading of a patent interferes with the various benefits that flow from the disclosure function of patent law:

Some Hearings participants explained that they do not read their competitors’ patents out of concern for such potential treble damage liability. Failure to read competitors’ patents can jeopardize plans for a noninfringing business or research strategy, encourage wasteful duplication of effort, delay follow-on innovation that could derive from patent disclosures, and discourage the development of competition.

It is troubling that some businesses refrain from reading their competitors’ patents because they fear the imposition of treble damages for willful infringement.\textsuperscript{137}

I share these critics’ view that the doctrine of enhanced damages that discourages rather than promotes the reading of patents diserves the purposes of patent law. While the disclosure function of patent law is far from perfect, disclosure benefits of patents are substantial, and should not be undermined by patent law’s punitive damages rules.\textsuperscript{138} Patents transfer technical information, inform inventors and firms about research that has already been done, and encourage inventive design-arounds.\textsuperscript{139} With the caveat that the relevance of personal anecdotes to scholarly work may be limited, I note that during my time as a scientist working in Silicon Valley, a supervisor once criticized me for finding, through a Google search, a patent that was arguably relevant to my research. At the time, it seemed odd to me that intellectual curiosity would be suppressed rather than rewarded. Now that I know some patent law, I see that my supervisor was in the right, but the rule still seems odd. And legal scholarship shows that my experience with patent searching was far from exceptional.\textsuperscript{140}

One could argue that, if patent disclosure were so valuable, firms would search for and read patents anyway, even if that meant having to deal with allegations of aggravated conduct sufficient for imposition of enhanced damages. Nonetheless, when actual knowledge is made to be the \textit{sine qua non} of enhanced damages, the decision to avoid searching seems tempting to make—and, in turn, would become much less attractive when a standard that is not so strongly tied to actual knowledge is adopted. It therefore stands to reason to have a standard for enhanced damages that


\textsuperscript{139} Id.

rewards, or at least doesn’t punish, patent searching. This is so because searching and reading of patents might sometimes produce benefits to society that would outweigh the social costs and burdens of searching. Although it has been argued that compensatory damages are adequate to vindicate these goals, it would be difficult to explain the widespread practice of ignoring patents, described further in the next subsection, even in scenarios in which least a minimal patent search might be made in a socially cost-effective manner if this were so.

The common refrain in response, nonetheless, is that patents in certain industries provide little in the way of technically valuable information and serve primarily as a tax on innovation. According to this account, search and analysis of patents has little social value, and entails great social costs. Maybe so—and such considerations, if true, should be taken into account in the enhanced damages inquiry. As I make clear in Part III, arguments like these are simply a reason to introduce a greater degree of industry-specificity in making the threshold determination as to whether enhanced damages should be available. But this goal can only be accomplished by removing the inflexible actual knowledge standard.

2. It promotes undesirable holdout

Recent literature has noted a “hold-out” problem in the patent system. As Professor Colleen Chien noted, “[i]n many cases, manufacturers fail to take steps to clear products prior to their release even though they are arguably in the best position to determine whether any patents read on their plans.” Companies do this in part because “reading the patents of others results in a manufacturer knowing about a patent, and knowledge of a patent makes it easier for a court to enhance a damages award based on a defendant’s knowing infringement.” Professor Chien further explains that, “[f]rom the patentee’s perspective . . . when companies resist patent demands, they shirk their responsibilities as willing participants in the patent economy.” But the reasoning implicating the shirking of responsibility applies not only to the resistance of patentee licensing demands, but to the failure to clear products by performing patent searches as well. In cases in which it would be relatively inexpensive for the potential infringer to find and analyze relevant patents, a non-search can be a form of “hold-out” that in substance is not very different from the refusal to negotiate a license over a known patent. In addition, as noted earlier, patent clearance searches can have a great deal of social value because they might help transfer technical information through patents and promote the formation of markets for patent rights—and, with it, development and commercialization of patented inventions.

141 See, e.g., Love, supra note 3, at 943.
143 Chien, supra note 42, at 23.
144 Id. at 24.
145 Id.
147 Ted Sichelman, Commercializing Patents, 62 STAN. L. REV. 341, 345 (2010); see also Holte, supra note 136.
These intuitions are consistent with the law and theory of punitive damages. Indeed, one set of circumstances in which courts have not hesitated to award punitive damages in areas of law outside patents involves rights violations that could have been avoided via negotiation with the rights-holder. As explained by Professors Haddock, McChesney, and Spiegel, enhanced damages discourage tortfeasors from deciding “to forego consensual exchange in favor of socially costly takings.” Accordingly, “punitive rather than merely compensatory damages is a desirable response to many property violations.” Patents, of course, are property rights whose utilization can, at least in theory, be negotiated over provided that the transaction costs are not prohibitive. Under this rationale, awards of punitive damages for infringement of a property right based on recklessness is even more justifiable than for many ordinary torts, where no pre-violation negotiation is possible at all. Professor Dan Markel made a similar argument, contending that “the availability of retributive damages encourages parties to use market transactions instead of misconduct that violates property rules—that is, those rules that require parties to negotiate over the transfer of legal entitlements prior to their exchange.” This is particularly true where “detecting complex wrongdoing occurring in private is difficult and where people may not even know they have been victimized,” as is often true for patent infringements. Patent law has appeared to recognize the notion of a “guilty infringer” in cases where the infringer was aware of the patent, but it is not clear why the infringer who opted not to do any searching at all should fare any better.

Of course, in cases where the infringement is “open and notorious,” the burden of coming to the infringer should lie squarely on the patentee. But for a number of important fact situations, infringement can be extremely difficult to detect, resulting in the undercompensation of the patentee—as well as underdeterrence of the infringer under a purely compensatory regime. It might be argued that this state of affairs is not necessarily that bad because enforcement of every single existing patent through litigation may bring the economy to a halt. But search need not equal mandatory contact with the patentee followed by enforcement of the patent. For example, a searcher may reasonably ignore a discovered patent because it is probably not infringed or invalid, side-step enforcement by designing around the claims, or even acquire or license the patent at issue if the price is right. In addition, even diligent searches can sometimes miss a patent, perhaps resulting ultimately in no enforcement. And finally, some relevant patents might simply not exist at the time that a clearance search is made, and the (eventual) infringer would have no reason to believe that a relevant patent will come into existence. Again, in some industries the underenforcement story could be a positive one even in the absence of the possibilities discussed in this section. But this, yet again, would be another reason for industry-specificity in the enhanced...

149 Haddock et al., supra note 42, at 18.
150 Id.
152 Id. at 285.
153 Lee & Melamed, supra note 3, at 443, 461-65.
155 Chien, supra note 42, at 14.
damages analysis—and, indeed, another reason to reject the rigid, non-economic actual knowledge rule.\textsuperscript{156}

Moreover, the possibility of increased patent enforcement could bring with it various positive spillover effects. Patent litigation can be socially beneficial in numerous ways even if the underlying patents are bad—for example, it can lead to invalidation.\textsuperscript{157} And this result might be more readily accomplished by manufacturers or suppliers, who have greater capacity than other potential defendants, like end users (that sometimes end up being targeted instead), to search for patents and develop defenses.\textsuperscript{158} Professor Chien explains that “[t]he manufacturer is more likely to be more ‘patent-sophisticated,’ have better access to potentially invalidating prior art, and be more invested in establishing a reputation for toughness lest they be targeted by other patent asserters.”\textsuperscript{159} But for these very reasons, infringers falling into this category “are often left off the case” in lawsuits brought by “enterprising” plaintiffs.\textsuperscript{160} If, however, there were a greater “stick” in place to force manufacturers to search for patents, the manufacturers would have a greater likelihood of approaching the patentee, perhaps leading to litigation that would leave the end user out of it (and improving the chances of the patent’s invalidation as opposed to a nuisance settlement).\textsuperscript{161} And, as I note in Parts III and IV, there are other ways in which patent litigation can generate salutary dynamic effects on innovation.

3. \textit{It reinforces excessive focus on individual patents}

The actual knowledge standard excuses ignorance of the larger patent landscape, but it makes up for that by creating the expectation that the patents of which the defendant becomes aware are analyzed in exhaustive detail. The now-discarded adverse inference rule embodied this attitude, practically forcing accused infringers to spend a great deal of money on formal opinion letters to avoid or at least counter the charges of willfulness.\textsuperscript{162} Although the rule has been eliminated, letters continue to play an important role in countering accusations of willfulness.\textsuperscript{163} Of course, formal opinions of counsel can always be helpful for accused infringers defending the charge of willfulness in front of a jury. Nevertheless, given the high cost and resulting high social burdens associated with such opinions, the expectation that they are indispensable may not always be justified. For example, in some cases where the theory of infringement is unclear, where there is invalidating prior art that looks on-point, or where the potential defendant is simply too small to afford a formal letter, defendants should be able to establish no willfulness as a matter of law even

\textsuperscript{156} More on this in Part III.
\textsuperscript{158} Id.
\textsuperscript{159} Chien, supra note 42, at 29.
\textsuperscript{160} Id.
\textsuperscript{161} Karshtedt, supra note 15.
\textsuperscript{162} See supra notes 99-107 and accompanying text.
without the letter.\textsuperscript{164} But the perception that formal opinions are important remains nonetheless. The outsized role of opinion of counsel in the enhanced damages determination is a natural consequence of the actual knowledge standard, which limits the universe of patents that the accused infringer must deal with, but then holds them to a very high standard with respect to those patents.

In his concurrence in \textit{Halo}, Justice Breyer noted the problem with the cost of opinions of counsel.\textsuperscript{165} He maintained that a mere receipt of a “demand” letter from a patent owner indicating the serial numbers of “relevant” patents may not be enough to justify an award of enhanced damages starting from the date of receipt in the absence of expenditure for a letter. He explained that companies cannot always be faulted “simply for failing to spend considerable time, effort, and money obtaining expert views about whether some or all of the patents described in the letter apply to its activities.”\textsuperscript{166} Justice Breyer further noted that “the risk of treble damages can encourage the company to settle, or even abandon any challenged activity,” leading to the possibility that “a patent will reach beyond its lawful scope to discourage lawful activity.”\textsuperscript{167} Accordingly, Justice Breyer concluded that courts, in their exercise of discretion whether to award enhanced damages, must account for the specific circumstances of each case, which “make[ ] all the difference.”\textsuperscript{168} Clearly, it would generate extremely high social costs to require a company to deplete its legal budget, and maybe its whole operating budget, to analyze thousands of patents and initiate licensing negotiations over many of them. In contrast, a more cursory, limited search and analysis may not be excessively burdensome, and would be consistent with what could be reasonably expected for certain types of defendants.\textsuperscript{169}

But what is even less defensible is a situation where a complete non-search is rewarded over a search. Indeed, although Justice Breyer proceeds from the assumption “that the infringer knew of the patent”\textsuperscript{170} before it could be eligible for enhanced damages, his “all-circumstances” insight actually points the other way. While sometimes it might be non-reckless to do nothing (or very little) about a patent one knows about, the converse could also be true—failing to discover and address (even cursorily) a patent that one could have found easily and cheaply could be a hallmark of recklessness. Indeed, it might stand to reason to have a rule that would encourage companies to spend their legal budgets learning the broader patent landscape as opposed to focusing on a few patents they might have learned about from a demand letter. The objective approach, endorsed by the Supreme Court’s principal opinion in \textit{Halo}, appears to do so, imputing to the infringer the knowledge of an unreasonable risk that a reasonable person would have had.\textsuperscript{171}

In contrast, the Federal Circuit’s actual-knowledge approach in the wake of \textit{Halo} ignores this guidance and fails to pay heed to the all-circumstances nature of the inquiry, and implicitly the excessive focus on opinion letters in the process.

\begin{footnotesize}
\textsuperscript{165} \textit{Id.} at 1936.
\textsuperscript{166} \textit{Id.}
\textsuperscript{167} \textit{Id.} at 1937.
\textsuperscript{168} \textit{Id.} at 1936
\textsuperscript{169} See infra Part III.
\textsuperscript{170} Halo, 136 S. Ct. at 1936.
\textsuperscript{171} \textit{Id.} at 1931 (majority opinion).
\end{footnotesize}
4. It probably distorts compensatory damages

The actual-knowledge approach to enhanced damages likely generates distortions in the assessment of compensatory damages. This area of law is complex and has numerous problems; a comprehensive coverage of compensatory damages in patent law would be beyond the scope of this Article. This subsection focuses on one phenomenon encountered in the law of patent compensatory damages—the idea of a so-called “royalty kicker.” That is, courts have allowed compensatory damages in the form of a “reasonable royalty” beyond the amount specified in any comparable royalty agreement actually offered in evidence. The decision to allow greater-than-adequate compensatory damages was made to fix the perceived unfairness of the situation in which the “reasonable royalty” awarded as damages might be close to the amount that the patentee would have received anyway, through willing licensor-licensee negotiations. One court justified this move based on the need to counter “the perception that blatant, blind appropriation of inventions patented by individual, nonmanufacturing inventors is the profitable, can’t-lose course.”

Professor Brian Love contended that these concerns are probably unfounded: even without the “kickers,” royalties are sometimes inflated because of “patent holdup” of a potential infringer who has already invested a great deal into the accused technology. Moreover, litigation costs and other hassles associated with patent suits probably do enough to deter infringement, and, well, there’s the willfulness doctrine. But it is not clear if “holdup,” however it is defined, was actually present in the specific cases where “punitive” reasonable royalties were awarded. And, as Professor Chien’s article indicates, compensatory damages and litigation costs don’t always deter infringers. Professor Love makes the point that innocent infringers cannot be deterred, but that argument might depend on a narrow conception of “innocent” and overlook the dynamic deterrent effects of damages. Under the Federal Circuit’s willfulness doctrine, if a company adopted a policy of never searching for patents, never opening a demand letter, and instructing outside counsel to never inform it of any relevant patents, it would still be “innocent.” As colorfully described by a patent lawyer I know, this “would be the patent equivalent of a driver putting on a blindfold and later claiming (truthfully) he had no actual knowledge of all the pedestrians he ran over.” But if enhanced damages were awarded against such an infringer, that would be a message that such conduct is not so “innocent,” and another firm faced with decision whether to proceed in this fashion might think twice. That rule could, in turn, work toward fostering effective deterrence.

But the problem is, the rigid strictures of the current willfulness doctrine demand actual knowledge, and thus do not allow enhanced damages even against this sort of seemingly egregious conduct. Sensing the unfairness, courts distort compensatory damages, opening themselves to

---

172 See supra note 3 for scholarship on compensatory damages in patent law.
174 Cf. Love, supra note 3, at 923
175 Fromson v. Western Litho Plate and Supply Co., 853 F.2d 1568, 1575 (Fed. Cir. 1988).
176 Love, supra note 3, at 925.
177 Chien, supra note 42, at 23.
179 Oddly enough, in its indirect infringement jurisprudence, the Supreme Court recognized the willful blindness doctrine in cases like this. Glob.-Tech Appliances, Inc. v. SEB S.A., 563 U.S. 754, 766 (2011). But for the purposes of willfulness, willful blindness apparently does not equal actual knowledge. This is exceedingly odd.
criticisms that the compensatory damages doctrine has become incoherent. It is time to take this “royalty kicker” out of the shadows and award it as enhanced damages, but only in situations where there was a reckless non-search or other behavior by the infringer falling so far below the standard of care as to constitute recklessness.

***

In the next Part, I discuss the developments in tort and other areas of law that are relevant for implementing the Supreme Court’s guidance in *Halo*. I focus on the shift from the conception of punitive damages in tort as a criminal-like sanction for reprehensible interpersonal acts to a policy lever for deterring socially costly behavior, and the corresponding evolution of the standard for awarding such damages from specific intent to a form of recklessness. In this context, I discuss enhanced damages in areas of law other than patent. The goal is to see where patent law belongs in comparison to these other schemes, whether it is an outlier, and what patent law can learn from the other areas of law where enhanced damages are awarded. This analysis reveals that, while other areas of law have retained a focus on subjective culpability to some extent (as embodied in patent law’s actual knowledge standard for enhanced damages, or its allowance of enhanced damages for subjective willfulness), they have also embraced a more objective recklessness standard. I develop the contours of this standard in Part III, and explain in Parts IV and V that it is right for patent law as a matter of faithful application of *Halo* (with its focus on trial court discretion), policy, and statutory interpretation.

II. Supra-Compensatory Damages Outside Patent Law

In this Part, I trace the development of the purpose of enhanced damages in civil litigation, documenting a shift from a criminal-like retributive function of such damages for reprehensible interpersonal behavior to a more economics-driven focus on deterrence. Moreover, I address the “depersonalization” of injury-causing behavior and trace the expansion of the punitive damages doctrine from a focus on the defendants’ subjective mental states to primarily objective evaluations of the defendant’s conduct. These developments track the shift from victim-specificity to victim non-specificity in the doctrine of punitive damages.

The mapping, to be sure, is not perfect. One can have subjectively bad intent with regard to an unspecified victim, particularly when there is a high probability of harm (as when shooting into the crowd). Or, one can be objectively reckless with respect to the rights of a specific individual, perhaps as when failing to ascertain the boundaries between one’s own land and a neighbor’s when starting a building project. But in general, subjective mental states like knowledge and intent are often associated with a desire or at least callous indifference (i.e., mens rea) with respect to harming someone in particular, while objective mental states like those reflected in civil
recklessness and negligence standards instead focus on socially undesirable conduct endangering the world at large.180

This subjective-objective division between intent and knowledge on the one hand and negligence and recklessness on the other is not sharp: there is the complication of criminal recklessness, which relates to indifference to known risks, perhaps to specific individuals or to members of a well-defined class.181 But the criminal-civil recklessness distinction in fact captures an important point made throughout the Article: criminal law is generally concerned with retribution and punishment of individuals who engage in harmful conduct accompanied by subjectively “bad” mental states, while tort law is generally concerned with objectively undesirable conduct full stop. And under the objective approach, what an actor subjectively knows is unsurprisingly not decisive. Just as there could be highly unreasonable (i.e., reckless) conduct with respect to a known risk, there could also be highly unreasonable, reckless conduct with respect to a risk that is not actually known. This is because the failure to learn of potential risks can itself be highly unreasonable, and therefore reckless (though such a failure may be less likely to be accompanied by identifiable subjective culpability). Unfortunately, courts have not heeded close attention to these distinctions—an issue that has, not doubt, been complicated by the fact that recklessness is a relatively modern idea.182 As the Supreme Court recently explained in Voisine v. United States,183 the very concept of recklessness was not well-developed in the mid-1800s—a time when the early cases interpreting the enhanced damages provision of the Patent Act of 1836 were being decided. Indeed, punitive damages in general cannot be understood without some history, to which I now turn.

A. Punitive Damages in Tort

1. Historical developments

For a significant period of time in Anglo-American legal history, torts and crimes were essentially undifferentiated.184 Both the state and the injured party had a role to play in pursuing the offender in the same case, blurring the functions and procedural aspects of what we today recognize as criminal as opposed to civil actions. In some suits, the injured party had the option of obtaining a monetary judgment from the offender if it principally sought compensation, or of

---

180 OLIVER WENDELL HOLMES, THE COMMON LAW 142 (1881); cf. Commonwealth v. Pierce, 138 Mass. 165 (1894) (Holmes, J.) (adopting the economic-utilitarian position in a criminal recklessness case by choosing the objective standard); KEETON, supra note 131, at § 34, at 213-14 (discussing the interplay of culpable mental states and objectively deviant conduct).
183 136 S. Ct. 2272, 2281 (2016) (“Recklessness was not a word in the common law’s standard lexicon, nor an idea in its conceptual framework; only in the mid- to late-1800s did courts begin to address reckless behavior in those terms. The common law traditionally used a variety of overlapping and, frankly, confusing phrases to describe culpable mental states—among them, specific intent, general intent, presumed intent, willfulness, and malice.”) (citations omitted).
having the offender imprisoned if it cared more about revenge. \(^{185}\) Although actions that we today would characterize as “civil” became independent form their criminal counterparts, scholars of the common law have noted their historic links. For example, “[l]arceny has been regarded as the criminal kin to the civil action for trespass *vi et armis*, that is, by actual or implied violence,” and “[m]ost scholars of English law agree that the writ of trespass is derived from the appeal of felony for larceny.” \(^{186}\) Even so, the close link between criminal and civil actions remained. Thus, “[a] civil action of trespass as late as 1694 could result in criminal sanctions against the defendant.” \(^{187}\) The spirit of the historical tort-crime connection persists to this day, and some theorists continue to see some aspects of tort law as carrying out the function of private vengeance. \(^{188}\) But this is a minority view—tort law today is distinctly focused on deterrence and compensation.

The existence of punitive damages in tort reflects the historic tort-crime link, while at the same time highlighting the trend of separation of the vengeance and punishment focus of criminal law on the one hand from the compensation and deterrence functions of tort law on the other. In the view of some courts, the punishment and compensation functions could coexist in tort actions: a nineteenth century Illinois Supreme Court decision held that “where the wrong is wanton, or it is willful, the jury are authorized to give an amount of damages beyond the actual injury sustained, as a punishment, and to preserve the public tranquility.” \(^{189}\) The court’s reference to “public tranquillity” suggests that damages (as a sum total of compensatory and punitive damages) could function to meet the desires for retribution of those who have been wronged, in addition to providing compensation. Some nineteenth-century courts, however, took a very different view, arguing that punishment is the exclusive province of criminal law. \(^{190}\) While punitive damages remain an integral part of tort law today, the fit continues to be an uneasy one and courts and commentators continue to complain that such damages are nothing but criminal punishment through the tort law backdoor. \(^{191}\)

Although the debate about the propriety of punitive damages in tort is as old as the remedy itself, it is notable that many nineteenth century courts that allowed such damages did pay close heed to the criminal-like nature and purposes of this remedy. For example, the Illinois court’s reference to “public tranquility” is quite telling: although public-order rationales for punitive

\(^{185}\) Colby, *supra* note 184, at 432 (“Victims who preferred compensation could bring an action for a writ of trespass; victims who preferred vengeance could bring an appeal of felony. ‘They could either put their wrongdoers to death and collect nothing [through an appeal of felony], or collect money for themselves and leave their wrongdoers alive with the rest of their wealth intact [through a writ of trespass].’”) (quoting Seipp, *supra* note 184, at 84) (alterations in original).


\(^{189}\) Hawk v. Ridgway, 33 Ill. 473, 475 (1864) (citing Foot v. Nichols, 28 Ill. 486, 488 (1862)); see also Merest v. Harvey, 128 Eng. Rep. 761, 761 (C.P. 1814) (“It goes to prevent the practice of duelling, if juries are permitted to punish insult by exemplary damages.”); cf. McNamara v. King, 7 Ill. (2 Gilm.) 432, 437 (1845) (stating that the function of punitive damages is “not only to compensate the plaintiff, but to punish the defendant.”); THOMAS J. COLLIN, PUNITIVE DAMAGES AND BUSINESS TORTS: A PRACTITIONER’S HANDBOOK (1998).

\(^{190}\) Fay v. Parker, 53 N.H. 342, 382 (1872).

damages in tort, and for tort law generally, continue to be invoked today, we now generally think of criminal law as playing the dominant role over tort in helping maintain the peace. But the law in the nineteenth century presented a somewhat different picture. One commentator, Professor Michael Rustad, noted:

The doctrine of exemplary damages was used in nineteenth-century American cases to punish and deter defendants who committed a wide variety of intentional torts with a spirit of malice, fraud, oppression, or insult. The purpose of the remedy was to compensate the plaintiff for the mortification of the injury and deter the defendant from repeating actions which threatened the social order. The overriding function of the remedy was to preserve the social peace and avoid crude forms of self-help such as dueling and the type of destructive social conflict dubbed by historian William Holdsworth as “bastard feudalism.”

Consistent with these intuitions, enhanced damages functioned to provide redress for reprehensible interpersonal behaviors through which the defendant exhibited extreme disregard for the rights of a specific victim. Examples include cases of assault, seduction, breach of a promise to marry, libel, and other “insults.” There are complications in this picture: As Professor Rustad’s reference to “compensat[ing] the plaintiff for the mortification of the injury” suggests, “exemplary” or “vindictive” damages were not always divorced from the goal of compensation—at least when it came to “dignitary” injuries that were difficult to quantify. As Professor Anthony Sebok explained, “compensation for emotional suffering” and “compensation for insult” were two make-whole functions of “exemplary” damages that could be clearly gleaned from nineteenth century opinions. But the early understanding of the kinds of torts for which punitive damages were available highlights opprobrium of malevolent behavior toward fellow human beings that, according to Professor Sebok, reached beyond the mostly utilitarian concerns of modern tort law. In the context of a discussion of punitive damages for trespass to chattels and seduction, Sebok explained “[o]ne might even describe the phenomenon of exemplary damages as a concrete example of the expressive use of punishment, where punishment is not inflicted to alter criminals’ cost-benefit analysis but to alter criminals’ sense of what would be tolerated by the communities in which they live every day.” Thus, in line with early tort’s close connection with criminal law, punitive damages began as a remedy against those who were acting upon evil motives and exhibited reprehensible interpersonal conduct that would be expected to prompt revenge.

---

192 Dorsey Ellis, Fairness and Efficiency in the Law of Punitive Damages, 56 S. Cal. L. Rev. 1, 29 (1982). To be clear, the functions of revenge and deterring unlawful behavior are not mutually exclusive, and perhaps even complementary. And, particularly in intentional trespass actions, the rationale of prevention of breaches of the peace, as through violent self-help, appears even today. See, e.g., Jacque v. Steenberg Homes, Inc., 563 N.W. 2d 154 (Wis. 1997).
194 Sebok, supra note 30, at 200.
195 Rustad, supra note 193, at 3. Note that criminal law started moving toward recklessness too.
196 Id. at 197-200.
197 Id. at 203.
But things have changed. Professor Sharkey explained that “[m]odern tort cases . . . have exerted increasing pressure upon this individual-specific harm model”198 that focuses on “retributive punishment.”199 As the advent of the industrial age led to a depersonalization of injury-causing behavior, the doctrine of punitive damages “expanded to punish and deter large corporations which recklessly endangered the public through their misconduct.”200 Professor Rustad noted that “[t]he words most frequently used to describe conduct deserving of punitive damages such as ill-will, evil motive or wanton misconduct are fictitious when applied to organizational deviance.”201 Indeed, it is difficult to imagine that a corporation, through its officers, would actually seek to hurt consumers with its products.202 More likely, the corporation would seek to cut costs and in so doing up put out a manifestly unsafe product or service—with railroads probably being the most notable nineteenth-century example of a corporate miscreant of this sort.203 The law adjusted to these developments, and punitive damages moved beyond the realm of intentional torts against specific persons: “[B]eginning in the mid-nineteenth century, punitive damages were awarded in negligence cases, where the defendant’s conduct was gross or reckless.”204 The “public tranquility” rationale is harder to invoke in such cases: it seems like one is more likely to duel with or otherwise personally take revenge on someone who assaulted or libeled you, or corrupted one’s child, than with the CEO whose product caused an injury due to reckless corporate conduct.

The twentieth century saw a further shift from the subjective to the objective conception of punitive damages. As Professor Sharkey concluded, “[i]t is no longer the case that malice or wanton conduct is required; increasingly, state legislatures and courts acknowledge that reckless disregard can suffice”205 for the imposition of punitive damages. In some states, courts continued to use terms like “wanton” but effectively redefined them to bring them into line with the recklessness framework.206 Professor Jody Kraus noted the linguistic side of this phenomenon in an insightful article, explaining that courts might continue to use terms whose semantic purchase might have originally been deontic, but which modern developments have imbued with economic-efficiency connotations.207 The shift has been quite comprehensive and covers numerous areas of

198 Catherine M. Sharkey, Punitive Damages as Societal Damages, 113 YALE L.J. 347, 357 (2003).
199 Id. at 353.
200 Rustad, supra note 193, at 3 & n.7. Note that criminal law started moving toward recklessness too. See Livingston Hall, Assault and Battery by the Reckless Motorist, 31 AM. INST. CRIM. L. & CRIMINOLOGY 133, 134 (1940) (“Whether or not it is also necessary to prove that the defendant knew the magnitude of the risk is a question upon which the authorities are unclear.”).
201 Rustad, supra note 193, at 3 & n.7; see also Owen, supra note 7, at 119.
202 Cf. Rantanen, supra note 15. Interestingly, punitive damages are now more likely for business torts than for personal injuries. See Mark A. Franklin et al., Tort Law and Alternatives: Cases and Materials 756 (10th ed. 2016) (“Punitive damages are awarded more frequently and at higher rate in commercial litigation than in tort cases. The only category of personal injury torts in which punitive damages are awarded at a higher rate than the rate in commercial litigation is intentional torts.”).
203 See, e.g., Goddard v. Grand Trunk Ry., 57 Me. 202 (1869).
204 Rustad, supra note 193, at 3 & n.7.
205 Sharkey, supra note 198, at 358 & n.19.
206 For a leading example, see Taylor v. Superior Court, 598 P.2d 854, 863-65 (Cal. 1979) (Clark, J., dissenting) (accusing the majority of twisting language in concluding that reckless conduct was malicious).
law—from negligence to corporate torts (including products liability) to intellectual property cousins of patent, copyright and trademark. I will consider each in turn.

2. Modern developments

a. Drunk driving. In a well-known case, *Taylor v. Superior Court*, the Supreme Court of California had to decide whether a statute that, at the time, allowed recovery of punitive damages “where the defendant has been guilty of oppression, fraud, or malice, express or implied” applied against a drunk driver. The trial court sustained the defendant’s demurrer to the claim for punitive damages “based upon plaintiff’s failure to allege any actual intent of defendant to harm plaintiff or others.” The Supreme Court disagreed that this was the appropriate standard and allowed the punitive damages claim to proceed.

Turning to the Prosser torts treatise, the court explained that one way to establish enhanced damages is to show that the defendant engaged in “such a conscious and deliberate disregard of the interests of others that his conduct may be called wilful [sic] or wanton” and concluded that this standard was met in this case based on the mere fact of drunk driving. The court also maintained that “[t]he allowance of punitive damages in such cases may well be appropriate because of another reason, namely, to deter similar future conduct.” In doing so, the high court effectively abrogated an earlier Court of Appeal decision holding that, while drunk driving “is a reckless and wrongful and illegal thing to do . . . , it is not a malicious act.” Thus, the court redefined malice to include reckless conduct. Relying on an older conception of punitive damages, the lone dissenter contended that “the evil motive requisite to punitive damage is simply not shown by driving while intoxicated. Rarely will the defendant have been drinking for the purpose of injuring someone, with knowledge that his drinking will injure the plaintiff, or even with knowledge that his drinking will probably injure someone.” But the dissent’s attitude has not prevailed. Along with California, most states now allow punitive damages for drunk driving, even though the “malice” in the old sense of the word—an act directed at hurting a specific victim—is not present in these circumstances.

Although drunk driving and similar “aggravated negligence” cases embody an expansion of punitive damages theories into the realm of generalized recklessness, they involve behavior that

---

210 Taylor, 598 P.2d at 855.
211 *Id.* at 856 (quoting *WILLIAM J. PROSSER, LAW OF TORTS* § 2, p. 9-10 (4th ed. 1971)).
212 *Id.*
213 *Id.* at 857.
214 *Id.* (quoting Gombos v. Ashe, 158 Cal. App. 2d 517, 529 (1958)).
215 *Id.* at 864 (Clark, J., dissenting).
216 Johnson v. Rogers, 763 P.2d 771, 774 (Utah 1988) (“The overwhelming majority of jurisdictions which have considered the issue have ruled that punitive damages are available in drunk driving cases.”). *But see* Komornik v. Sparks, 629 A.2d 721 (Md. 1993) (denying punitive damages for drunk driving). Some states require a previous history of drunk driving for the award of punitive damages, however. See Bolsta v. Johnson, 848 A.2d 306 (Vt. 2004); *see also* Taylor, 598 P.2d at 859-60 (Bird, C.J., concurring). California itself amended the punitive damages statute to include the word “despicable.” *See* Lackner v. North, 37 Cal. Rptr. 3d 863, 880-84 (App. 2006).
we might seek to eliminate completely rather than optimize.\textsuperscript{217} Moreover, the moral opprobrium seen in cases of assault, libel, or seduction is present even in the “depersonalized” (in that no specific victim is intended) drunk driving cases today.\textsuperscript{218} And finally, one might argue that perhaps we should not be too concerned if defendants in such cases would be subject to crushing financial liability. But the expansion of punitive damages to generalized reckless conduct has ensnared far more than just drunk driving cases.

b. Products liability and other corporate torts. Imposition of punitive damages in products liability cases presents questions that are both more challenging than those one encounters in drunk driving scenarios, and also more closely related to issues that come up in patent cases.\textsuperscript{219} Thus, proponents of tort reform argued that if high damages awards start putting companies out of business, the innovation infrastructure and the economy in general might suffer.\textsuperscript{220} Moreover, companies might be deterred from putting out novel but unproven products for fear of liability for as-yet unknown defects. Because, unlike drunk driving, commercial activity is generally encouraged, the balancing of risk and utility is particularly important in products liability cases.\textsuperscript{221} Patent law, too, has tradeoffs: although infringement is an “unlawful activity,”\textsuperscript{222} crushing awards that would put companies out of business are not desirable.\textsuperscript{223} Of course, the compensatory aspects of the two areas of law is different—patent infringement suits are meant to compensate inventors for forgone royalties and promote further innovative research, while products liability actions compensate for physical injuries.\textsuperscript{224} But although the latter function sounds far more important, it must be remembered that we live in a world of extensive first-party insurance, with tort suits sometimes characterized as a last resort.\textsuperscript{225}

Moreover, the deterrence function of damages in products liability has the same overall features as patent law—we want to discourage particular unlawful behaviors without putting companies completely out of business, or making them so risk-averse as to squash innovative behavior. In both areas of law, what might make the behaviors unlawful to the point that punitive damages might be desired is the defendants’ failure to advert to the rights of others in a socially cost-effective manner,\textsuperscript{226} and the decision to accept instead the possibility of litigation in the event

\begin{itemize}
\item[\textsuperscript{217}] See Colby, \textit{supra} note 184, at 470-76; Sharkey, \textit{supra} note 22, at 489, 492.
\item[\textsuperscript{218}] Cf. Hall, \textit{supra} note 200 (explaining the desire to increase penalties for reckless driving crimes).
\item[\textsuperscript{219}] For a leading early article on punitive damages in products liability cases, see David G. Owen, \textit{Punitive Damages in Products Liability Litigation}, 74 MICH. L. REV. 1257 (1976).
\item[\textsuperscript{220}] For a critique of modern developments in tort along these lines, see PETER W. HUBER,\textit{ LIABILITY: THE LEGAL REVOLUTION AND ITS CONSEQUENCES} 14-15, 155-56, 170-71, 224-25 (1988); see also Richard J. Mahoney & Stephen E. Littlejohn, \textit{Innovation on Trial: Punitive Damages Versus New Products}, 246 SCI. 1395 (1989).
\item[\textsuperscript{223}] Id.
\item[\textsuperscript{225}] See John G. Fleming, \textit{The Collateral Source Rule and Loss Allocation in Tort Law}, 54 CALIF. L. REV. 1478, 1546-49 (1966). Of course, another important difference is that physical injuries are involved in products liability cases though not all of the time. See, e.g., Hess v. Volkswagen of Am., Inc., 341 P.3d 662, 671 (Okla. 2014) (Taylor, J., concurring). But punitive damages have been awarded in cases not involving physical injury, like trespass. See, e.g., Jacque v. Steenberg Homes, Inc., 563 N.W. 2d 154 (Wis. 1997).
\item[\textsuperscript{226}] Hylton, \textit{supra} note 7; Hylton, \textit{supra} note 32.
\end{itemize}
of getting “caught” as a “cost of doing business.” Unsurprisingly, then, the debates over the value of patent infringement actions today resemble in many ways the debates over liability and damages awards in products cases in years past. That makes products liability a particularly useful model for patents, and a source of potential legal frameworks. And finally, the analogy is bolstered by the fact that, like (non-willful) patent infringement, products liability in some contexts follows the principles of strict liability, or liability without fault.

What does the standard for punitive damages in products liability look like? In most states that award such damages, lack of awareness of a specific victim is a given, and lack of actual knowledge of a specific product defect may not be a barrier either. Thiry v. Armstrong World Industries, an Oklahoma asbestos case, exemplifies this approach. In this case, a plaintiff who developed asbestosis sued on the theories that “defendants’ products were defective in that they failed to adequately warn of health hazards associated with the use of asbestos” and that “defendant had an obligation to test its products and remain abreast of the medical and scientific knowledge concerning hazards in the use of products.” In addition, he argued that “defendants knew that exposure to asbestos would cause asbestosis or if defendants did not know such fact it was due to its gross omission, conscious indifference and utter disregard for persons exposed to the product.” On these theories, the plaintiff sought “to recover exemplary and punitive damages in such an amount as would deter defendants and others from such conscious indifference and utter disregard for the welfare of users of their products.”

In prefatory comments, the Supreme Court of Oklahoma noted that “[b]y removing the negligence requirement for recovery, strict liability expands the legal consequences of fault to the ‘innocent’ manufacturer of defective products.” But it explained that “[s]o much attention was devoted to the questions of how innocent manufacturers should be liable for defects in their products that rules applying to the highly blameworthy manufacturer may have been forgotten.” Accordingly, the court saw the need to complement the ‘shield’ of compensation provided by strict liability doctrine with a ‘sword’ of punitive damages. The court further explained that “the important role of punitive damages is the deterrence [sic] of similar future misconduct.” Finally, the court noted that while its prior cases used “traditional phrases as ‘willful and wanton, malice, oppression, gross negligence, ill will, actual malice, or under circumstances amounting to fraud or

---

227 Wildlife Express Corp. v. Carol Wright Sales, Inc., 18 F.3d 502, 514 (7th Cir. 1994).
228 See Karshtedt, supra note 15.
230 But cf. Owens-Illinois, Inc. v. Zenobia, 601 A.2d 633 (Md. 1992) (applying the actual knowledge standard based on the argument that punitive damages liability must be limited in a clear manner in a state where punitive damages are uncapped).
231 661 P.2d 515 (Okla. 1983).
232 Id. at 516.
233 Id.
234 Id.
235 Id.
236 Id. (emphasis in original).
237 Id. at 517.
238 Id.
oppression,” “[a] more clearly defined and articulated standard is needed in the products liability context.”

The court held that the role of punitive damages for injuries from defective products would be vindicated when such damages were allowed “if the injury is attributable to conduct that reflects reckless disregard for the public safety.” The court explained that “[t]o meet this standard the manufacturer must either be aware of, or culpably indifferent to, an unnecessary risk of injury” so as to “fail to determine the gravity of the danger or fail to reduce the risk to an acceptable minimal level.” But what, in the court’s view, was the hallmark of “culpable” indifference? Was it conduct that was accompanied by a subjectively bad mental state (e.g., proceeding in the face of actual knowledge of danger), or conduct that was below some objective standard? The test fashioned by the court suggests that it should be the latter.

The court enumerated several factors for the lower courts to consider, including “gravity of the resulting risk of harm to the public,” “the costs of correcting or reducing the danger,” the level of “awareness of the existence and gravity of the product defect,” and “the nature of steps actually taken to correct the defect.” The analysis is quite explicitly economic, focusing on cost-optimization and balancing precautions against the risks and gravity of harm. Although the level of awareness does matter, it is not the sine qua non. And, like the negligence standard, the recklessness standard outlined by the court is objective, involving the balancing of costs and benefits from an external perspective. This is modern tort law, and there is little room in the factors for interpersonal animus, moral opprobrium, prevention of vigilante-style retribution, and the like. In many states, this is what “malice” generally looks like in the context of corporate liability.

The sufficiency of generalized, objective recklessness toward the rights of others for the imposition of punitive damages has been reaffirmed in many contexts, including inadequate product testing and the failure to warn. Moreover, this standard has appeared in cases awarding punitive damages for other non-product torts by corporations, including trespass (e.g.,

---

239 Id. at 518.
240 Id. (emphasis in original).
241 Id.
242 Id. at 519.
243 For another example, see Strum, Ruger & Co. v. Day, 594 P.2d 38, 47 (Alaska 1979).
244 Interestingly, Oklahoma has since codified the principle that recklessness is enough for imposing punitive damages, but imposed caps on punitive damages for conduct of lower culpability. See OKLA. STAT., tit. 23, § 9.1 (West 2012).
245 See Owen, supra note 219, at 126.
by developers failing to ascertain the property rights of others)\textsuperscript{248} and false representations.\textsuperscript{249} The objective standard makes sense if the goal is to “punish impersonal wrongdoing committed by artificial persons.”\textsuperscript{250} Adopting this reasoning, the Oregon Supreme Court aptly explained the development in the standard for punitive damages from the conception of interpersonal malice to its additional modern function of deterring irresponsible corporate behavior:

In the wide range of situations said to justify punitive damages, the present case is not one of giving vent to personal and societal outrage at aggressive or malicious wrongdoing, [such as assault and battery and malicious prosecution]. The large scale of these corporate defendants’ land development and marketing project places the case rather with those in which punitive damages serve the function to deter enterprises from accepting the risks of harming other private or public interests by recklessly substandard methods of operation at the cost of paying economic compensation to those who come forward to claim it. Such operations may well be wholly impersonal with respect to any victim, indeed conducted with the hope that no harm will occur, and they may not involve a culpable attitude on the part of any one person responsible for the management of the enterprise; yet this court has held that such lack of managerial culpability alone does not foreclose punitive damages. Still, to justify punitive damages the conduct must go beyond mere carelessness to a willful or reckless disregard of risk of harm to others of a magnitude evincing a high degree of social irresponsibility. In such a setting the plaintiff whose economic loss may be insignificant to the enterprise and perhaps too small to justify the expenses of pressing a claim represents social interests larger than his own.\textsuperscript{251}

The modern economic rationales for punitive damages in tort laid out by the Oregon and Oklahoma Supreme Courts indicate an expansion of the scope of such damages from their function as sanctions for morally reprehensible interpersonal behavior to include the more general goal of fostering deterrence of choices, often made by corporate defendants, which generate high social costs.\textsuperscript{252} In this frame, awarding punitive damages for behavior that is reckless with respect to the affected group generally, as opposed to only intentional or knowing, makes some sense. Indeed, the focus in corporate tort cases should be, and generally is, not on the subjective states of mind of the “wrongdoer” but on behaviors that are, from an objective standpoint, so unreasonable that they impose significant externalities on society.\textsuperscript{253} This, perhaps, is indicative of a more general shift from the criminal-law heritage of tort, which made revenge and retribution functions

\textsuperscript{248} Liberty Bell Gold Mining Co. v. Smuggler-Union Mining Co., 203 F. 795 (8th Cir. 1913); Cumberland Tel. & Tel. Co. v. Poston, 30 S.W. 1040, 1041 (Tenn. 1895) (“There was also evidence sufficient . . . to raise the question of gross negligence on the part of the company in not exercising more caution to find and obtain the consent of the true owner of the property that the trees might be cut, and also in the manner in which the cutting was done, and in cutting the trees at all.”); see also Meighan v. U.S. Spring Commc’ns Co., 924 S.W.2d 632 (Tenn. 1996) (reaffirming earlier rule).


\textsuperscript{250} Michael L. Rustad, \textit{Happy No More: Federalism Derailed by the Court That Would Be King of Punitive Damages}, 64 Md. L. Rev. 461, 469 (2005); see Rantanen, \textit{supra} note 15, 1609-22.

\textsuperscript{251} Schmidt, 631 P.2d at 1374-75; cf. Rantanen, \textit{supra} note 15, 1625-33.

\textsuperscript{252} See Mathias v. Accor Econ. Lodging, 347 F.3d 672 (7th Cir. 2003) (Posner, J.) (applying this reasoning in the context of repeated uncompensated harms); \textit{cf.} Ciraolo v. City of New York, 216 F.3d 236, 242 (2d Cir. 2000) (Calabresi, J., concurring) (similar).

\textsuperscript{253} Rantanen, \textit{supra} note 15.
paramount, to a conception that is more firmly focused on the utilitarian goals of civil litigation—as embodied in the shift of the role of punitive damages from punishment to deterrence.

c. Copyright and trademark. Unlike the Patent Act, the Copyright Act actually uses the word “willful” and has a complex statutory damages provision that has different caps (on a per-copied-work basis) depending on whether the infringement was willful or not. 254 Although one commentator has argued that the word “willful” in the Copyright Act’s civil remedies provision denotes “an intentional violation of a known legal duty” 255 (apparently without distinguishing between criminal and civil willfulness or recklessness, about which I will say more later), 256 the majority view is decidedly different. For example, the Second Circuit in Yurman Designs v. PAJ held that “[w]illfulness in [the copyright] context means that the defendant ‘recklessly disregarded’ the possibility that ‘its conduct represented infringement.’ . . . A plaintiff is not required to show that the defendant ‘had knowledge that its actions constitute[d] an infringement.’ ” 257 The court made clear that while “PAJ testified that it was unaware of Yurman’s copyrights,” “the jury was free to discredit that testimony, or to find that PAJ’s ignorance was due to recklessness.” 258 Although the Federal Circuit in fact cited Yurman in Seagate, this standard is strikingly different from the knowledge-of-the-patent standard—which focuses entirely on the merits on the infringer’s legal position. 259

In another case, the Second Circuit denied summary judgment of willfulness to Microsoft, the copyright holder, but noted that based on the evidence proffered by Microsoft “[a] jury could, without a doubt, conclude that [the defendant’s] statements reveal willful blindness, or establish a pattern of conduct so unreasonable as to constitute reckless disregard.” 260 The court appeared to agree with Microsoft that willfulness could be found because the defendant “certainly did not take any special steps to prevent its receipt and sale of unauthentic software products,” but noted that “a jury could infer that additional inspections were, for any number of reasons, not mandated.” 261 The court noted “only an individual with specialized training . . . could discern the difference between authentic products and high-quality counterfeits of the sort at issue in this case,” and explained that “the hiring of such experts could be found by a jury to be beyond what could reasonably be expected of small companies.” 262

254 17 U.S.C. § 505. Notably, the Copyright Act also includes criminal penalties for “[a]ny person who willfully infringes a copyright” with additional aggravating factors, such as infringing “purposes of commercial advantage or private financial gain. 17 U.S.C. § 506.
255 Hyde, supra note 7, at 377.
256 See infra notes _.
257 Yurman Design, Inc. v. PAJ, Inc., 262 F.3d 101, 112 (2d Cir. 2001) (citations omitted); Wildlife Express Corp. v. Carol Wright Sales, Inc., 18 F.3d 502, 511–12 (7th Cir. 1994) (same standard); RCA/Ariola Int’l, Inc. v. Thomas & Grayston Co., 845 F.2d 773, 779 (8th Cir. 1988) (same standard). But cf. Dolman v. Agee, 157 F.3d 708, 715 (9th Cir. 1998) (suggesting that willfulness requires knowledge that actions constitute infringement); cf. In re Barboza, 545 F.3d 702, 707-08 (9th Cir. 2008) (relying on the cases from the Second, Seventh, and Eighth Circuits to hold that “recklessness is sufficient for a finding of willful copyright infringement”).
258 Yurman, 262 F.3d at 113; see also Broad. Music, Inc. v. Star Amusements, Inc., 44 F.3d 485 (7th Cir. 1995) (in a non-punitive context, providing the times the unpaid licensing fees as a remedy for copyright infringement).
259 In re Seagate Tech., 497 F.3d 1360, 1370 (Fed. Cir. 2007) (en banc).
261 Id.
262 Id.
The analysis proffered by Judge Guido Calabresi, who was a leading torts scholar in the law and economics tradition before being confirmed to the Second Circuit, reveals something quite important: while actual knowledge of a specific “victim” is not required to establish willfulness based on reckless disregard of others’ rights, the willful inadequacy of the defendant’s investigation can only be established upon balancing of costs and benefits of that investigation under the circumstances (e.g., given the size of the company and the expertise it is expected to have). This approach is consonant with the modern economic-utilitarian view of tort, expounded early on by Oliver Wendell Holmes, approved of by Judge Learned Hand with his famous formula, and further developed by scholars like Richard Posner (now, of course, a judge), John Prather Brown, and Guido Calabresi himself when he was a law professor. Of course, a strong case has been made that intellectual property law, too, should be driven by economic-utilitarian considerations. These considerations render the somewhat economically arbitrary (because grounded mainly in moral considerations) standard, which would require knowledge of the patent in every circumstance as a pre-requisite for enhanced damages, all the more puzzling.

The remedial scheme for trademark infringement is even more complex than in copyright. The statute states that “[i]n assessing damages the court may enter judgment, according to the circumstances of the case, for any sum above the amount found as actual damages, not exceeding three times such amount.” These permissive treble damages are explicitly non-punitive. The statute also mandates treble damages, “unless the court finds extenuating circumstances,” for intentional trademark infringement. And finally, the statute provides statutory damages “[i]n a case involving the use of a counterfeit mark . . . in connection with the sale, offering for sale, or distribution of goods or services,” including enhanced statutory damages for this sort of infringement “if the court finds that the use of the counterfeit mark was willful.”

As in copyright law, the majority view appears to be that intent to infringe a specific trademark is not required for willfulness; reckless disregard toward the rights of others would suffice. In one case, the Second Circuit cited the defendant’s “failure to conduct a comprehensive trademark search” as one of the factors pointing toward willfulness. The court explained that “willful ignorance should not provide a means by which [the defendant] can evade its obligations

264 United States v. Carrol Towing Co., 159 F.2d 169 (2d Cir. 1947).
270 Id. 1117(b).
271 But cf. Romag Fasteners, Inc. v. Fossil, Inc., 817 F.3d 782 (Fed. Cir. 2016) (dubiously holding that a finding willfulness is required for the remedy of accounting, even though the statute says that this remedy is “not a penalty”), cert. granted and judgment vacated on other grounds, 2017 WL 1119451 (U.S. Mar. 27, 2017).
272 International Star Class Yacht Racing Ass’n v. Tommy Hilfiger, U.S.A., Inc., 80 F.3d 749, 752-53 (2d Cir. 1996); cf. Polo Fashions, Inc. v. Dick Bruhn, Inc., 793 F.2d 1132, 1135 (9th Cir. 1986) (noting that the purpose of trademark remedies is to “take all the economic incentive out of trademark infringement”) (citation omitted).
under trademark law.” 273 After another appeal and remand, the parties continued to dispute whether the defendant had “an obligation to conduct a more extensive trademark search” than what it actually did to avoid a finding of willfulness. 274 Thus, in the Second Circuit, no actual knowledge of a specific intellectual property right is required for willfulness in trademark law. 275 Other jurisdictions are to the same effect: In the First Circuit, the conduct sufficient for willfulness is “measured against standard of reasonable behavior.” 276 Again, patent law is decidedly different in requiring actual knowledge of the right being infringed for enhanced damages.

B. The Role of the Tort Punitive Damages Standard in Interpreting Federal Statutes

1. Methodological considerations

What does all this learning mean for patent law? For one thing, it shows that patent law is something of an outlier. This, in itself, should give us pause. When Congress first passed the permissive enhanced damages provision, it may well have intended for courts to look to culpability standards for enhanced damages in other areas of civil litigation prevalent at the time. This is, indeed, what the Supreme Court did in Seymour v. McCormick when it decided an enhanced patent damages case in 1853. 277 But Congress could have hardly intended for the standard to become forever wedded to nineteenth century tort law.

The Supreme Court made this point in a similar interpretive context, when it was charged with determining the culpability standard for punitive damages for constitutional torts under 42 U.S.C. § 1983 in a case called in Smith v. Wade. 278 Although parallels between patent infringement and civil rights violations are difficult to draw, the case is nonetheless useful and instructive for its methodology. As in patent cases, the Court dealt with a relatively old statute whose language did not say very much. Accordingly, the Court turned to tort law to figure out the punitive damages problem before it and made some extremely significant jurisprudential points.

In determining the appropriate standard, the Court looked “to the common law of torts (both modern and as of 1871), with such modification or adaptation as might be necessary to carry out the purpose and policy of the statute.” 279 Moreover, the Court explicitly defended its reliance on modern tort law. It explained that, while “we have found useful guidance in the law prevailing at the time when § 1983 was enacted[,] it does not follow that that law is absolutely controlling, or that current law is irrelevant.” 280 The Court noted that “if the prevailing view on some point of

275 Although one might argue that the difficulty of determining patent validity and infringement in patent cases might support a different standard, the truth is that validity and infringement of trademarks can also raise exceedingly difficult questions.
277 57 U.S. (16 How.) 480 (1853); see supra Section I.A.1 and accompanying text.
278 461 U.S. 30 (1983). Section 1983, of course, does not even mention punitive damages, but that has not stopped the courts from allowing them to be awarded based on common law principles. See Carlson v. Green, 446 U.S. 14, 22 (1980).
279 Smith, 461 U.S. at 34.
280 Id. at 34 n.2. Interestingly, Theodore Sedwick’s 1847 treatise stated that punitive damages could be awarded for “or negligence so gross as to raise the presumption of malice.” SEDWICK, supra note 73, at 27-28. In that, Sedwick was probably ahead of his time, as presaged the modern objective recklessness standard. Indeed, objective recklessness might be equivalent to gross negligence. See Kenneth W. Simons, Rethinking Mental States, 72 B.U. L. REV. 463, 464-65, 478 (1992).
general tort law had changed substantially in the intervening century . . . , we might be highly reluctant to assume that Congress intended to perpetuate a now-obsolete doctrine.”

Canvassing both modern and historical sources, the Supreme Court ultimately settled on the standard of recklessness as opposed to intent for § 1983 punitive damages. The court concluded that

[m]ost cases under state common law, although varying in their precise terminology, have adopted more or less the same rule, recognizing that punitive damages in tort cases may be awarded not only for actual intent to injure or evil motive, but also for recklessness, serious indifference to or disregard for the rights of others, or even gross negligence.

Justice Rehnquist’s thoughtful dissent, joined by two other justices, nicely captured the distinction between the recklessness and intent standards, as well as recklessness’s rationale. He explained that the “distinction between acts that are intentionally harmful and those that are very negligent, or unreasonable, involves a basic difference of kind, not just a variation of, degree.”

But what is the precise nature of that difference? “The former typically demands inquiry into the actor’s subjective motive and purpose, while the latter ordinarily requires only an objective determination of the relative risks and advantages accruing to society from particular behavior.”

Justice Rehnquist thought that the subjective standard was more historically defensible and more appropriate than recklessness, particularly in its objective form, for § 1983 actions. And in suits against government officers engaged in abusive behaviors under the color of law, the coherence of a standard focusing on subjective factors can perhaps be defended. It makes sense to focus on punishing wardens for consciously neglecting (and perhaps showing disdain for) their duties toward prisoners in their charge.

Although the majority discussed deterrence, the cost-benefit analysis fits uneasily here. Indeed, while the facts of Smith v. Wade might be consistent with the warden’s laziness or desire to save money and time, they also suggest that the warden subjectively held the lives of the prisoners in his care in subjectively rather low regard.

Perhaps unsurprisingly, then, courts applying Smith eventually settled on the criminal version of the recklessness standard for punitive damages in § 1983 actions. Justice Rehnquist may have lost the battle in Smith, but he arguably won the war in that future decisions adopted this more morally-grounded, criminal-law version of recklessness. Echoing Justice Rehnquist’s dissent in Smith, the Supreme Court in Farmer v. Brennan explained the difference as follows: while “[t]he criminal law. . . generally permits a finding of recklessness only when a person disregards a risk of harm of which he is aware,” “[t]he civil law generally calls a person reckless who acts . . . in the face of an unjustifiably high risk of harm that is either known or so obvious that it should be

---

281 Smith, 461 U.S. at 34.
282 Id. at 48.
283 Id. at 63-64 (Rehnquist, J., dissenting) (citing Prosser, supra note 211, § 34, at 185; and Restatement (Second) of Torts § 500 (Am. Law Inst. 1965)).
284 Id. at 64 (citing Restatement (Second) of Torts § 282).
286 Smith, 461 U.S. at 49-51.
287 Id. at 32-33.
known." In *Safeco v. Burr*, the Court elaborated that unlike criminal recklessness, “[s]ubjective knowledge on the part of the offender” is not required for civil recklessness.

Leaving aside the specific details of *Smith*, the case’s methodology toward interpreting the standard for awarding punitive damages under a federal statute is notable at a higher level. The Court looked to developing tort law to fill the gaps in the statute, and then considered whether the tort standard made sense for § 1983 actions. This Article adopts a similar methodology for 35 U.S.C. § 284, the patent damages statute. The approach is ubiquitous: as Professors Baude and Sachs argued in a recent article, the common law routinely provides unwritten “substantive rules” for interpreting federal legislation. But it still remains to be shown that the dominant tort approach to punitive damages makes sense for patent law. The next section addresses this issue through the lens of the common law efficiency thesis.

2. Economic considerations

The common law’s shift toward an objective standard for punitive damages is not surprising. As tort law moved through the nineteenth century, it started to become unmoored from its criminal law-like foundations focused on social morality and, influenced by the work of writers like Holmes, moved toward an economic-utilitarian approach. The doctrine reflected these shifts. In the law of negligence, for example, courts abandoned the old writ of trespass, which created somewhat irrational distinctions between “direct” and “indirect” harms, and adopted the objective approach of balancing of social burdens and benefits in determining whether the defendant met the standard of reasonable care. And when courts consider whether to create new duties, they explicitly evaluate the burdens and benefits of imposition of tort liability on various societal interests.

The common law’s trend toward economic efficiency has been documented by numerous scholars. For example, Professor George Priest identified as “the tendency of the set of all legal rules to become dominated by rules achieving efficient . . . allocative effects,” and Professor Paul Rubin came to similar conclusions. Others, including Professor Kraus, have noted

---

291 See Baude & Sachs, supra note 14, at 1105-07.
292 *HOLMES, supra* note 180.
293 *But cf. GERHART, supra* note 246; Thomas W. Merrill & Henry E. Smith, *The Morality of Property*, 48 WM. & MARY L. REV. 1849 (2007); *see also supra* note 188 and accompanying text.
295 *United States v. Carroll Towing*, 159 F.2d 169 (2d Cir. 1947).
296 *See, e.g., Randi W. v. Muroc Joint Unified School Dist.*, 929 P.2d 582 (Cal. 1997). The modern courts might not agree with Holmes on the particulars of the cost-benefit analysis for imposition of particular duties, but they follow his general economic-utilitarian approach for analyzing whether they should be imposed. *See Oliver Wendell Holmes, Privilege, Malice, and Intent*, 8 HARV. L. REV. 1, 10 (1894) (“The principle seems to be pretty well established, in this country at least, that every one has a right to rely upon his fellow-men acting lawfully, and, therefore, is not answerable for himself acting upon the assumption that they will do so, however improbable it may be.”). This approach appears to have been widely rejected by courts in the twentieth century.
“impressive level of fit” between economic analysis and common law rules” as well.footnote{299} These observations apply, at least to some degree, to rules of punitive damages. According to Professor Catherine Sharkey, for example, the expansion to recklessness serves “the efficiency-based goal of economic deterrence.”footnote{300} Professor Peter Diamond’s work is to the same effect—he argued that awards of punitive damages for reckless disregard of the rights of others properly focus on “costs that are not adequately represented in the defendant’s decision process.”footnote{301} Conversely, an exclusive focus on intent or evil motive is unlikely to produce optimal deterrence.

Of course, not all is rosy in the law of punitive damages in tort. Some commentators have lamented that courts have had trouble communicating with precision the required elevated level of culpability to the jury.footnote{302} More significantly, the size and unpredictability of the awards have come under massive criticism.footnote{303} This latter critique has led to Constitutional Due Process scrutiny in a series of Supreme Court decisionsfootnote{304} and perhaps—somewhat ironically—resulted in a move away from a rigorous economic approach.footnote{305} Indeed, even in cases in which an award with a large punitive-to-compensatory ratio might be economically justified, the Supreme Court appeared to forestall this possibility by announcing that awards of greater than 10:1 ratios would be presumptively unconstitutional.footnote{306} Even so, Professor Sharkey contended that “it would be wrong to conclude that the U.S. Supreme Court has closed the door entirely on economic rationales of punitive damages.”footnote{307} Instead, Sharkey explained, “the Court recognizes optimal deterrence as one, but not the sole, underlying justification for punitive damages.”footnote{308}

In any event, when it comes to the threshold level of culpability, the absence of a requirement of defendant’s actual awareness of the tort’s potential victim reflects (though sometimes in an indirect way) the economic efficiency focus of modern tort law.footnote{309} This standard confirms that economically efficient results are more likely to be achieved when tort law focuses on objective evaluation of the defendant’s conduct, not on punishment for subjectively culpable state of mind.footnote{310} Professor Sharkey sums up these developments as follows: “whereas punitive damages were once awarded predominantly for acts that satisfied malice aforethought or

footnote {299} Kraus, supra note 207, at 357. But cf. Hadfield, supra note 19.
footnote {300} Sharkey, supra note 22, at 488; see supra note 22 and accompanying text.
footnote {301} Peter Diamond, Integrating Punishment and Efficiency Concerns in Punitive Damages for Reckless Disregard of Risks to Others, 18 J.L. Econ & Org. 117 (2002).
footnote {302} See Owen, supra note 7, at 108-10; see also Ellis, supra note 192.
footnote {303} See, e.g., John Jeffries, A Comment on the Constitutionality of Punitive Damages, 72 VA. L. REV. 139, 139 (1986); see also supra note 220 and accompanying text.
footnote {305} Sharkey, supra note 22, at 492. See Philip Morris USA v. Williams, 549 U.S. 346, 353-57 (2008) (holding that harms to parties not before the court cannot be directly taken into account in the punitive damages calculus).
footnote {306} State Farm, 538 U.S. at 424-27.
footnote {307} Sharkey, supra note 22, at 493.
footnote {308} Id.
footnote {309} For example, the focus on “reprehensibility” of the conduct often takes account with how often the defendant got away with committing torts in the past, and therefore approximates economically desirable results. See, e.g., Mathias v. Accor Econ. Lodging, 347 F.3d 672 (7th Cir. 2003) (Posner, J.); Polinsky & Shavell, supra note 21; cf. Colby, supra note 184, at 457-64.
footnote {310} Sharkey, supra note 22, at 492. But cf. Simons, supra note 280, at 484-85 (providing an examples in which a court departed from this analysis)
intentional wrongdoing, now many punitive damages awards arise from what was essentially accidental conduct, albeit committed recklessly.\textsuperscript{311}

***

As noted earlier, the courts have referred repeatedly to tort law in their efforts to interpret the Patent Act.\textsuperscript{312} But it is not clear if they have taken full account of the developments described in this Part. Given patent law’s economic-utilitarian goals, this is a serious omission. The Part that follows demonstrates that the seeds of the correct approach have already been planted by the Supreme Court’s recent decision in \textit{Halo v. Pulse} and applies modern tort standards for punitive damages to patent law.\textsuperscript{313}

III. Back to Patent Law: Toward a Proper Standard for Enhanced Damages

A. Halo’s Endorsement of the True Objective Recklessness Standard

The \textit{Halo} decision created an opportunity for the lower courts to write a new chapter in the law of enhanced patent damages when it rejected rigid rules that impose strict appellate control on a trial court’s decision to award enhanced damages. Indeed, the Court made clear that there is not to be a “precise rule or formula”\textsuperscript{314} for constraining the lower courts’ discretion for awarding enhanced damages. Yet the Federal Circuit has continued to adhere to such a rule post-\textit{Halo} by requiring actual knowledge of a patent as a pre-requisite for enhanced damages.\textsuperscript{315} The rigidity of the rule violates the strictures of \textit{Halo} by disallowing eligibility for even egregious behaviors by infringers under the recklessness standard. Worse, it fails to effectuate the purpose of enhanced damages in patent law by discouraging analysis of patents and leaving socially unproductive “holdout” behaviors without an adequate remedy.\textsuperscript{316} Indeed, as Professor Hylton explained in a recent article, a miscalibrated enhanced damages doctrine can lead to diminished incentives to innovate.\textsuperscript{317}

I contend that, contrary to the approach that the Federal Circuit took in the wake of \textit{Halo}, enhanced damages can be awarded under \textit{Halo} when the infringer behaved recklessly and that this standard can, in certain circumstances, be met by a showing that a defendant engaged in a woefully inadequate patent search. I maintain that the all-circumstances approach implied in the generalized recklessness standard can lead to other important changes, such as shielding end users from enhanced damages. But let us consider, as an initial matter, how a non-search could be reckless and therefore “egregious” within the meaning of \textit{Halo}.\textsuperscript{318}

\begin{flushleft}
\begin{itemize}
\item \textsuperscript{311} Sharkey, \textit{supra} note 22, at 493.
\item \textsuperscript{312} See \textit{supra} notes 17-18, 76-77 and accompanying text.
\item \textsuperscript{313} Halo Elecs., Inc. v. Pulse Elecs., Inc., 136 S. Ct. 1923 (2016).
\item \textsuperscript{314} \textit{id.} at 1929-30.
\item \textsuperscript{315} WBIP, LLC v. Kohler Co., 829 F.3d 1317 (Fed. Cir. 2016).
\item \textsuperscript{316} See \textit{supra} Part I.C.
\item \textsuperscript{317} Hylton, \textit{supra} note 7.
\item \textsuperscript{318} Halo, 136 S. Ct. at 1932.
\end{itemize}
\end{flushleft}
For one thing, the Federal Circuit’s current approach to enhanced damages categorically refuses enhanced damages even for *subjectively* culpable behaviors, like willful blindness, conscious disregard, or deliberate indifference to patent rights.\footnote{Id. at 1933.} Even if, for example, a company copies a competitor’s patented product, enhanced damages will not be awarded unless knowledge of the patent covering the product can be imputed to the company. Copying can often be pro-competitive and worth encouraging,\footnote{See Bonito Boats, Inc. v. Thunder Craft Boats, Inc. 489 U.S. 141 (1989).} but it can also be socially harmful—as when, for example, a patent owner ends up losing market share to the copyist, is unable to recoup its investments through the exclusive right of the patent, and ends up having to fold.\footnote{See supra Part I.C.2.} And one can imagine situations when copying can be socially harmful to the extreme, as when a larger, well-resourced competitor uninterested in doing innovative work “crushes” a smaller, upstart competitor who might not have resources to bring a patent lawsuit. In circumstances like these, the possibility of enhanced damages might make a suit more palatable for the patentee, but current Federal Circuit precedent prohibits the award of enhanced damages without actual knowledge of the patent, apparently even if the patented product is copied. A great deal of case law in other areas of law is to the contrary of what the Federal Circuit has been doing, with many cases “finding recklessness [in] the defendant’s ‘I don’t care attitude.’”\footnote{Rapp, supra note 182, at 152 (quoting Williamson v. McKenna, 354 P.2d 56, 67 (Or. 1960)).}

Moreover, the Federal Circuit’s approach also prohibits an award of damages when infringement might be adjudged “objectively reckless” in the sense delineated in the fields of negligence, corporate tort, copyright, and trademark cases discussed in Part II. Just as one can be objectively reckless with respect to a patent of which one knows, the very absence of knowledge with respect to existence of a patent can be objectively reckless as well. The subjective-objective line can be difficult to draw, and some of the behaviors described in the previous paragraph might be both objectively and subjectively reckless depending on whether the plaintiff can show the defendant’s awareness that it was behaving evasively with respect to the patent rights of others. But even supposing that such subjective culpability cannot be shown, a patent plaintiff might establish entitlement to enhanced damages by proving a severe deviation from what is normally done in such circumstances, showing that the defendant’s “ignorance was due to recklessness.”\footnote{Yurman Design, Inc. v. PAJ, Inc., 262 F.3d 101, 112 (2d Cir. 2001).}

I believe that Supreme Court case law supports the possibility of awarding enhanced damages in all of these circumstances. First, *Halo* relied on the definition of recklessness in the *Restatement (Second) of Torts*, which does not require actual knowledge and thus reflects the developments discussed in Part II.\footnote{Halo Elecs., Inc. v. Pulse Elecs., Inc., 136 S. Ct. 1923, 1933 (2016) (quoting Safeco Ins. Co of Am. v. Burr, 551 U.S. 47, 69 (2007) (quoting RESTATEMENT (SECOND) OF TORTS § 500 (AM. LAW INST. 1965))).} Second, and relatedly, *Halo’s* reliance on *Safeeco v. Burr*,\footnote{Id. (quoting Safeeco, 551 U.S. at 69) (citing Farmer v. Brennan, 511 U.S. 825, 836 (1994))).} which in turn cites to *Farmer v. Brennan*,\footnote{See supra notes 288-290 and accompanying text.} makes clear that the Court in *Halo* intended the civil, not criminal, recklessness standard under the recklessness prong of proof of enhanced damages. Third, in a case called *Global-Tech v. SEB*, which involved a related question of the appropriate
mental state for indirect infringement, the Supreme Court held that knowledge of the patent was required but explained that willful blindness can be equivalent to actual knowledge.\(^{327}\) This suggests that, for *Halo* and *Global-Tech* to be consistent, enhanced damages should be awarded at least in willful blindness cases—but *Halo* has to be even more permissive as it is well known that recklessness is a less “rigorous” mental state than knowledge.\(^{328}\) Fourth and finally, in at least one patent case, *Topliff v. Topliff*, the Supreme Court actually allowed an award of enhanced damages without any evidence that the defendant had actual knowledge of the patent-in-suit.\(^{329}\) *Halo* therefore supports the true objective recklessness approach to enhanced damages—recklessness without actual knowledge.

**B. Implementing Objective Recklessness**

How might such objective culpability be shown? In tort cases, custom often plays an important role. Although, outside medical malpractice, compliance with custom vel non is not always determinative of negligence,\(^{330}\) the relevant custom can be useful in helping juries set the standard of care, against which the defendant’s behavior could then be compared.\(^{331}\) And, in order for the conduct to be adjudged reckless, a deviation from custom would need to be so significant that, as the authorities say, the difference from mere negligence would become not merely of degree but of kind.\(^{332}\)

The line can be difficult to draw, but this is something that judges and juries in tort litigation do routinely, even in technologically complex cases. And the torts *Restatements* have provided a framework for differentiating negligence and recklessness. *Restatement (Second) of Torts* explained that, unlike negligence, recklessness includes “conduct which the actor does or should realize as involving a risk to others which is not merely in excess of its utility, but which is out of all proportion thereto.”\(^{333}\) Indeed, such conduct can, in legal effect, often become equated with intent: “where this disproportion is great, there is a marked tendency to give the conduct a legal effect closely analogous to that given conduct which is intended to cause the resulting harm,”\(^{334}\) and has been characterized as “implied malice.”\(^{335}\) The *Third Restatement* includes a similar formulation, which holds that “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.”\(^{336}\) In noted cases, courts have held “extreme deviations” from customs or standards is indicative of such

---

328 *Cf. Model Penal Code* § 2.02 (AM. LAW INST. 1962)
331 Courts can override custom in certain circumstances and hold that it is not determinative of the standard of care—as, for example, when companies in an industry “colluded” not to do any patent searching. *Cf. The T.J. Hooper*, 60 F.3d 737 (2d Cir. 1992).
332 *Restatement (Second) of Torts* § 500 cmt. g.
333 *Id.* § 282 cmt. e.
335 SEDGWICK, supra note 73, at 27-28.
disproportion, and therefore sufficient to establish recklessness. 337 This approach, which measures the defendant’s behavior against a “reasonable standard of conduct,” 338 is rooted in objective considerations, and suggests a gross disproportion in the defendant’s risk-utility calculus.

But how is the custom for patent searching to be established, and how should the risk-utility analysis proceed? A study by Professors Graham, Merges, Samuelson, and Sichelman provides some data, addressing behavior among startups. The authors “inquired whether . . . respondents’ companies regularly check the patent literature to determine if someone else has a U.S. patent that covered what they were doing or were considering.” 339 Their findings were as follows:

Among [non-venture backed] respondents who answered, slightly more than one-third reported conducting these [patent] searches. This likelihood was particularly high for biotechnology (nearly seven in ten) and medical device (over half) companies, while slightly less than one-quarter of software companies reported doing regular patent searches.

Among the venture-backed sample, searching was substantially more common. Among all the respondents to this question, nearly six in ten venture-backed firms reported that they regularly searched the patent literature. Again, this propensity was particularly high among biotechnology (nearly nine in ten) and medical device (over nine in ten) firms. Nevertheless, nearly three in ten venture-backed software startups and over six in ten similarly funded IT hardware companies reported doing so. 340

There did not seem to be any indication in the survey that this level of searching was in any way irrational or indicated an attitude of inefficient risk-averseness. Accordingly, the patent search customs detailed in this study might be a good approximation of the appropriate standards of care in the various industries that Graham and his co-authors examined. Based on this information, evidence showing that a defendant biotech or medical devices startup that does no patent searching at all might be found to be reckless. In contrast, evidence of some searching, though less regular than the custom would suggest, might be merely negligent, meaning that the defendant would be ineligible for punitive damages.

Based on the study, it is clear that different results might obtain in different industries. Indeed, given that patent landscapes vary widely by industry and product, it would seem that a particularized assessment of eligibility for enhanced damages that reflects the specifics of that industry would be appropriate. And interestingly enough, the trial court looked to this sort of evidence in Stryker v. Zimmer, the companion case to Halo. The court explained that “Zimmer offered no evidence that its behavior—copying a competitor’s product, without attempting to

338 Walston, 923 P.2d at 459.
340 Id.
design around the competitor’s patents and without first seeking clearance from counsel on infringement concerns—was in keeping with standards of commerce in the medical device industry,”—and that further supported the jury’s finding of willfulness. Although the Federal Circuit reversed the trial court in Stryker, the Supreme Court in turn reversed the Federal Circuit in that case. There is nothing in the Supreme Court’s opinion to foreclose the trial court’s approach, and much to support it. Indeed, allowing the jury to hear this evidence and assess its relevance has to be a part of the trial court’s exercise of discretion that the Court was so concerned about in Halo (and that the Federal Circuit improperly took away).  

The idea of industry-specific policy levers in patent law is not new—it was developed by Dan Burk and Mark Lemley in a series of insightful articles. But it has not yet been applied to the context of enhanced patent damages. And the industry specificity would not be the end of it—the calculus would likely be different still for established companies as opposed to startups, reflecting not only industry-specificity but specificity with respect to a company’s status. More should be expected of larger, more established industry participants—and, as I will further explain, conversely less is expected of startups.

Another advantage of the proposed approach is that it prevents potential infringers from waving hands and saying “there are too many patents—we give up.” There is no doubt that the proper application of the recklessness standard might mean little or no searching given some industries or products. But this conclusion would only be reached after the trier of fact makes a particularized assessment of the infringer’s search strategy in view of the relevant custom. In addition, in line with the current approach, the trier of fact might also evaluate the defendant’s treatment of any relevant patents that were found and, if needed, further assess the defendant’s decision to approach, or not to approach, the patent owner to discuss licensing. Although this would surely add litigation costs, the advantage of the approach is that allows fact-finders to take the industry practice and the circumstances of the specific case into account, which is both sensible and consistent with the Supreme Court’s guidance. In contrast, what models of justice or efficiency are achieved by pegging enhanced damages to actual knowledge of the patent is unclear, particularly when the defendant came to know of the patent through its own diligent search. In fact, this approach seems to be exactly backwards.

Moreover, the all-circumstances standard has a flip side. As indicated earlier, the current focus of the enhanced damages doctrine is not on patent searches, but on opinions of counsel. And as Justice Breyer noted in his Halo concurrence, “it may well be expensive to obtain an opinion of

344 See supra notes 260-267 and accompanying text.
345 Lee & Melamed, supra note 3.
346 See supra notes 165-171 and accompanying text.
counsel,” with costs going into “tens of thousands of dollars.” He explained that “[s]uch costs can prevent an innovator from getting a small business up and running” and that “an owner of a small firm, or a scientist, engineer, or technician working there, might, without being ‘wanton’ or ‘reckless,’ reasonably determine that its product does not infringe a particular patent, or that that patent is probably invalid.”

The industry custom approach is consonant with Justice Breyer’s view. While the study by Graham et al. did not indicate how frequently start-ups obtained formal opinions of counsel, my personal experience in this area suggests that, probably not often. More likely, a very junior associate, patent agent, or even an engineer assesses a large number of patents determined to be relevant as a result of a search pursuant to a company’s freedom-to-operate strategy, eliminates most of them, and focuses on a few that might be relevant. Formal opinions of counsel are rarely written up during this process, though the individual examining the patents might develop a tentative invalidity or non-infringement position. In some cases, however, the patent turns out to be highly relevant and the owner is approached to explore a possibility of patent assignment or a license. And oftentimes, the searcher (at least in certain industries) might obtain valuable business and technical intelligence in the process. If a startup takes these steps, it should probably be adjudged non-reckless as a matter of law. But again, more might be expected of an established company. As Justice Breyer made clear, circumstances matter—and that includes examining whether the accused infringer is a small startup company or a large, well-resourced one. And this was the message from Judge Calabresi’s analysis of copyright willfulness as well.

In still other situations, it might be objectively reasonable (i.e., not even negligent, let alone reckless) to completely ignore the patent sent to you based on the weighing of burdens and benefits. The clearest example of such a situation is when an end user is targeted by a demand letter. It is manifestly unreasonable and socially costly, for example, to require end users to invest in technical knowledge or in patent attorneys—the focus on enhanced damages should be squarely on manufacturers, not end users. Instead, the proposed approach is designed to encourage the searching for, reading, and evaluation of patents by parties who are in position to do that work based on their place in the industry and technical expertise.

Even if a claim based on objective recklessness fails, however, the patentee might try pursue the end user for enhanced damages under the subjective prong of Halo. The patentee might argue that the end user who is told of the patent and proceeds to take advantage of the technology is an intentional infringer—a pirate. But perhaps this argument would is not a clear winner. Under Halo’s “subjective willfulness” prong, more than intent to infringe appears to be required.

347 Halo, 136 S. Ct. at 1936 (Breyer, J., concurring) (citation omitted).
348 Id.
349 Some of this discussion is a based on my personal experience as an associate in a patent prosecution group of a major law firm. For a case example including extremely thorough searching, see Polaroid Corp v. Eastman Kodak Co., 16 U.S.P.Q. 2d 1481, 1508 (D. Mass. 1990).
350 See supra notes 260-267 and accompanying text.
Specif/ically, the Court speaks at length of “subjective bad faith,” which connotes more than mere intent. Case law shows that bad faith suggests a desire to exploit a disparity in resources or harm a competitor, but this dynamic is often not present in the end-user infringer scenario, at least not when the end user is a regular customer. On the one hand, the customer who bought the product and used it as intended, even in the face of a demand letter, is no pirate. On other hand, the manufacturer who may have recklessly failed to clear a product before putting it out into the stream of commerce is the real pirate, at least in the modern sense.

The foregoing supplies a general outline of how the appropriate application of the recklessness standard might proceed. There is no doubt that difficult, fact-intensive issues arising under this standard will develop. The goal here is not to enumerate all factual possibilities, but to provide an appropriate legal framework. Ultimately, and following the Supreme Court’s guidance, the jury’s initial determination as to whether the defendant is eligible for enhanced damages would be an ultimate question of fact for the jury. Perhaps, the instruction could read like something along the following:

If you find that it is more likely than not that the defendant infringed the plaintiff’s patent, then you must also determine whether or not the infringement was willful. As with infringement, the patentee must prove willfulness by the preponderance of evidence (the more-likely-than-not standard). Willfulness can be proven either by a showing that the defendant acted with subjective bad faith, or acted despite an objectively high likelihood that its actions infringed a valid patent of which the defendant may or may not have been aware. In determining whether the defendant acted despite an objectively high likelihood that its actions infringed a valid patent, you must consider the totality of the circumstances. The totality of the circumstances comprises a number of factors, which include, but are not limited to, whether the defendant intentionally copied the claimed invention or a product covered by patent, whether the defendant performed an adequate patent search, whether the defendant relied on competent legal advice, and whether the defendant developed a substantial defense to infringement, including the defense that the patent is invalid, at the time the infringement began. You should take the cost of these measures into account in making this determination. Objectively high likelihood that the defendant infringed the patent may be determined by industry custom—that is, by evidence of what sort of patent searching companies do in like circumstances and the thoroughness of legal advice they obtain.

If the defendant did not know of the patent during at least a part of the time period that the plaintiff is claiming enhanced damages, you may take into account the difficulty of detecting the infringement and the ease of finding the patent in your assessment of whether the defendant was reckless. The more difficult it would have been for the Plaintiff to detect the infringement, and the easier it would have been

---

355 This is a requirement that is unfortunately imposed by *Halo*, but the trial judge can still refuse to award damages when the subjectively willful infringement was not socially harmful in his or her exercise of discretion. See infra Part IV.B.
for the Defendant to find the patent through a diligent search, the more readily you should be able to find the Defendant to have been reckless.

The Part that follows completes the development of the proposed framework by considering and answering some objections. They include the concern that punitive damages cannot be used to pursue broad social goals and that the role of the trial judge in my scheme has been made negligible. I address each in turn.

IV. Objections

A. The Public-Interest Role of Enhanced Damages

It is sometimes said that only defendants’ challenges to patent validity serve the public interest, while claims of infringement by plaintiffs are entirely a private matter. But that contention simply cannot be right. The patent system exists to encourage innovation and, for its ex ante incentive mechanism to work, inventors (i.e., prospective patentees) need to see that valid and infringed patents can be effectively enforced. Conversely, the law should encourage non-reckless, cost-effective patent searching and analysis so as to promote the transfer of technical knowledge through patents, transacting over patent rights, and the compensation of inventors via licensing.

Indeed, enhanced damages in patent law, if properly framed, can play a vital role in promoting innovation. In the law of patent infringement, private litigation plays an exclusive role. Although a government agency is involved in the creation of patent rights, the statute does not provide for government enforcement actions, criminal or civil, against patent infringers. This is in marked contrast to fields like antitrust, where duplicative private and public enforcement actions are common. Furthermore, a contrast can be drawn between patent and copyright and trademark, which allow for criminal sanctions though not government-initiated civil enforcement.

Thus, actions by plaintiffs as “private attorneys general” are the only mechanisms for deterring patent infringement and for demonstrating to future inventors that patent rights are actually worth something. While this may be a motivating factor to award enhanced damages to practicing patentees, big and small, anyone can be an effective private attorney general. Even the dreaded non-practicing entities, though by definition lacking products supported by the patent they are asserting, can in theory play such a role by generating these dynamic effects on innovation.

357 See, e.g., Sichelman, supra note 224, at 540 (“The exclusionary rights afforded by patents promote a more optimal level of innovation by providing greater incentives to innovators to invent, market, and sell innovative products, as well as to disclose the knowledge underlying those innovations in the form of published patent documents . . .”); see also id. at 532-33 (“The patentee is more akin to a private attorney general, paid via the enforcement of his right as a reward for benefiting the public, than a vindicator of his own private rights.”).
358 See supra Part I.C. Moreover, costs will be saved by avoidance of the court system. See supra notes 226-227 and accompanying text.
361 See, e.g., Sichelman, supra note 224.
Indeed, in some ways enforcement actions by such entities could be preferable because, unlike an operating company that has demands on its resources other than litigation. Accordingly, the prospect of enhanced damages could be, in the economist’s terms, a “bribe” encouraging prospective plaintiffs to bring lawsuits against recalcitrant infringers where compensatory damages might not make these actions worth the while. As Professor Hylton’s recent work suggests, this mechanism might get some defendants to do a better job of searching for patents (and compensating patentees) the next time around, perhaps leading to increased innovation incentives for those inventors who might become patent plaintiffs in the future.  

The role of patent remedies in promoting social goals is not a new concept. In a recent article, Professor Ted Sichelman argued that all remedies in patent law should be pegged to patent law’s instrumental goal of promoting innovation. Sichelman maintained that the “make-whole” model of private-law remedies is not appropriate for patent law, in which promoting innovation—not compensating a victim for an injury—is the overarching goal. Accordingly, Professor Sichelman put forward a “regulatory model” of patent remedies, in which damages, for example, would be calibrated to generate “optimal innovation incentives.” Sichelman thus proposed, for example, awarding generally higher damages in circumstances where infringement is difficult to detect or awarding generally lower damages where R&D and commercialization costs are low, as in the software industry.

Professor Sichelman’s paper has generated spirited debate—Professor Dan Burk, in particular, argued in response that courts in awarding tort law remedies have long paid heed to utilitarian, “regulatory” goals. But be that as it may, Sichelman concedes in his paper that his proposal cannot be implemented under the current version of the patent damages statute, which mandates that the court award at least “damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer.” Indeed, Sichelman argued that the remedies provisions of the Patent Act are “fundamentally flawed” and his proposed solution is to amend the statute “to encourage more optimal levels of innovation by giving the court discretion to adjust damages upward or downward from make-whole compensatory levels.”

In a short discussion of enhanced damages, Professor Sichelman noted that “punitive damages are often awarded for intentional, willful conduct” and explained that “willfulness damages solely inflicted as ‘punishment’ for ‘wrongful’ behavior should be eliminated from patent doctrine.” But, as the earlier analysis shows, Sichelman’s characterization of punitive damages in tort is not quite correct. The conception of punitive damages in tort has long ago moved beyond

---

362 Hylton, supra note 7; see also Oksar Liivak, Private Law and the Future of Patents, 30 HARV. J.L. & TECH. 33 (2017).
363 Sichelman, supra note 224.
364 Id. at 518.
365 Id. at 569-71.
366 Id. at 543-46.
367 Id. at 557-560.
370 Sichelman, supra note 224, at 566.
371 Id. at 569.
the criminal-like subjective-intent frame to include reckless behavior as evaluated in a mostly objective way. The application of this standard has been particularly salient in products liability cases, in which intentional conduct designed to hurt someone is usually not of principal concern. Indeed, objective analysis of recklessness, like objective analysis of negligence, must of necessity incorporate the costs and benefits of the activity and, in so doing, serve the utilitarian goal of deterrence as opposed to punishing culpable intent.\(^{372}\) To be clear, enhanced damages in patent law are still punitive, but what we really should be punishing is conduct, like holdout and disregard of patent rights based on refusal to do even minimal searching, which is socially costly because it interferes with the goal of promoting innovation, not because it is somehow morally deficient. Under this approach, essentially endorsed in *Halo* and consistent with modern tort law, enhanced damages in patent law can be awarded for conduct harmful to innovation without the need to amend the statute.

The proposal described herein will not fix all the difficulties with patent damages, particularly in the compensatory context, that have been discussed by Sichelman and others.\(^{373}\) For example, the proposed approach will not allow for the enhancement of damages for infringement solely where the patent at issue is directed to a technology that is expensive to develop and commercialize.\(^{374}\) But the generalized recklessness framework is at least a step in the right direction in that it attempts to make an assessment of whether to enhance damages based on the social utility of the infringer’s behavior. Also, one hopes that, with the greater discretion to award enhanced damages, the courts will be less tempted to allow reasonable royalty “kickers” and other distorting moves in the assessment of compensatory damages.\(^{375}\) Finally, it is not clear if courts have the institutional competence to figure out R&D and other costs in various industries, but evaluating whether behavior is reckless is well within the province of judges and juries. Juries do this in complex cases all the time—for example, they are given professional custom instructions in medical malpractice cases\(^ {376}\) and sometimes asked to determine whether the defendant deviated from the custom so greatly as to be adjudged reckless.\(^ {377}\)

More importantly, as Sichelman himself suggests, there might be constitutional problems with a damages approach that is completely untethered from the inquiry into the amount of financial loss that the infringement caused to the patentee, whether in terms of reasonable royalty or lost profits.\(^ {378}\) Sichelman’s main concern seems to be the degree of discretion that courts will be afforded under his proposal,\(^ {379}\) but another issue might be the incompatibility of a damages regime that is not at all tied to the infringer’s conduct toward the patentee given a private, “bipolar” litigation setting of patent infringement cases.\(^ {380}\) For example, the Supreme Court in *Philip Morris v. Williams* held that the awarding damages (as part of a punitive damages award) against the

\[^ {372}\] Rantanen, [supra note 15].  
\[^ {373}\] See [supra note 3 and accompanying text].  
\[^ {374}\] Sichelman, [supra note 224, at 558-60].  
\[^ {375}\] See [supra Section I.C.4].  
\[^ {376}\] See, e.g., Sheeley v. Memorial Hospital, 710 A.2d 161 (R.I. 1998).  
\[^ {378}\] Sichelman, [supra note 224, at 561].  
\[^ {379}\] Id. at 561-62.  
\[^ {380}\] See WEINRIB, [supra note 188]
defendant for injuries to parties not before the court would violate Due Process Clause—although such conduct could be taken into account in assessing the overall reprehensibility of the defendant’s conduct. 381 Private litigation can—and should—serve social goals, but there are some limits.

In contrast, damages enhancement in the private litigation context can be made consistent with social goals and with the history of “punitive damages as punishment for private wrongs to individuals, not public wrongs to society.” 382 As Professor Tom Colby explained, “the notion that punitive damages must be punishment for private wrongs, rather than public ones, incorporates the notion of deterrence.” 383 He contended that “by punishing the private wrong to the victim, punitive damages achieve a deterrent effect that benefits all of society, but that public benefit is merely an incidental effect of the private punishment—and an unavoidable one at that.” 384 Colby did caution that “the jury cannot calibrate the damages by reference to the societal benefits of deterrence, and a punitive damages award that exceeds the appropriate level of retributive punishment for the private wrong cannot be justified on the ground that it is necessary to achieve the societal benefits of deterrence.” 385 He contended that such a calculus is the province of criminal law, which is explicitly concerned with punishment for public wrongs. Still, Colby concluded that “the deterrent potential of punishment for private wrongs is actually quite substantial.” 386 Although not everyone agrees with this conception of punitive damages, 387 the Supreme Court’s reasoning and holding in Philip Morris appears to come close to mandating it.

Moreover, punitive damages kept at the treble maximum are unlikely to violate Due Process under the reasoning of Philip Morris. Such damages are tied to the compensatory baseline, which helps reduce the possibility that the total damages are completely untethered from the private harm the defendant brought upon the plaintiff in terms of depriving the plaintiff of reasonable royalties or lost profits. And such damages might effectively foster deterrence where there was the “aggravated harm” stemming from being able to easily find the plaintiff’s patent, but missing it because of willful non-search. As argued by Professor Shubha Ghosh, “patent law seeds a norm of innovation and aids in instituting such social practices as searching a field before beginning one’s research and development.” 388 The law of enhanced damages should be consistent with those norms and practices and after Halo, it can be. Some egregious non-searches might severely violate these norms, opening the door to enhanced damages.

B. The Role of Discretion After Recklessness is Found

382 Colby, supra note 184, at 395.
383 Id. at 460.
384 Id. at 462.
385 Id. at 463.
386 Id. at 468; see Dan B. Dobbs, Ending Punishment in “Punitive” Damages: Deterrence-Measured Remedies, 40 ALA. L. REV. 831, 854-56, 858-59 (1989).
387 See, e.g., Sharkey, supra note 198.
The proposal described herein allows, on the basis of *Halo*, for a trial judge to award enhanced damages based on the jury’s conclusion that the defendant’s behavior toward the patent rights of others was at least reckless. But enhanced damages are not required—a trial judge can still decline to award them in his or her discretion, or to give an award that is less than the treble damages maximum. The question, then, is whether the all-circumstances recklessness standard leaves nothing for the trial judge to do. If the issue of whether or not the defendant was reckless already accounts for all the relevant circumstances, what is the purpose of the judge’s exercise of discretion that the Supreme Court in *Halo* discussed so extensively, and what difference can it make?

One clear example of where discretion might come into play is a differential in the award of damages where the conduct at issue is intentional or in “bad faith” as opposed to merely reckless. There is a great deal of precedent for awarding lower enhanced damages where the defendant acted in a way that is “worse than negligent but less than malicious,” in the old “intentional harm” sense of “malice,” and judges deciding patent cases may well decide to follow this distinction. To aid in that determination, a jury could be asked to indicate whether the infringement was reckless or intentional in a special verdict form (along the lines outlined in the model instructions above), or a judge could decide whether the facts supporting a jury’s decision to open the door for enhanced damages allow for the conclusion of intentional conduct or that which is merely reckless. As the Federal Circuit explained in *Read v. Portec*, “where the maximum amount is imposed,” “the court’s assessment of the level of culpability must be high.”

And once again, in the case of end users, mere intentional infringement without more might not be sufficient for this elevated level of culpability.

It is possible, of course, that some factors that go into the jury’s recklessness determination may overlap somewhat with the ultimate recklessness inquiry based on the precedents. For example, the judge may look into whether the infringer independently developed its device and the patent covering it came into existence only later. In his or her discretion, the trial judge might also take into account whether the infringer had actual knowledge of the patent, how the infringer came to have that knowledge (through the demand letter? via its own search?), and whether the infringer is a manufacturer (who would be expected to advert to patent rights) or an end user (maybe not as much). Other circumstances where a judge might exercise the discretion to award lower than treble (or no) enhanced damages could be when the case for recklessness was “sufficiently close on the evidence,” where the enhanced damages award can completely ruin a

---

391 See supra notes 353-355. Then again, when the infringement is intentional but not really in bad faith, the trial judge in his or her discretion may decide to award no damages.
393 See, e.g., Datascope Corp. v. SMEC, Inc., 14 U.S.P.Q. 2d 1071, 1074 (D.N.J. 1990) (“A fifty-percent enhancement of damages is appropriate here. Although SMEC’s infringement was willful, it was not blatant.”).
395 SRI Int’l, Inc. v. Adv. Tech. Labs., Inc., 127 F.3d 1462 (Fed. Cir. 1997); see CHISUM ON PATENTS, supra note 92, § 20.03[4][b][vi][A], at 20-460.121.
company, or even “duration of defendant’s misconduct.” Still another factor that could be taken into account is the infringer’s history with respect to the patent rights of others—a factor that explicitly bears on the reprehensibility of the defendant’s conduct for the purpose of examining the amount of the damages ward under Philip Morris v. Williams, but could also inform the initial finding of recklessness. While all this might in practice entail some second-guessing of the jury’s willfulness conclusion, this level of judicial review is nonetheless salutary in that it might ensure enhanced damages are not awarded where they serve no useful social purpose, and are limited to truly egregious cases, including cases involving woefully inadequate patent searching. And it seems to be the Supreme Court’s intent that trial judges should play this policing role without having their discretion limited by rules like knowledge-of-the-patent requirement.

V. Conclusion

The Federal Circuit’s actual knowledge rule for enhanced damages in patent law fails to reflect modern common law developments. Moreover, it undermines the goals of economic efficiency and is in tension with the goals of the patent system. Finally, the rule contradicts Supreme Court precedent. It is time for this rule to be discarded.