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Halo v. Pulse Ushers in a New Era of Enhanced Damages in Patent Cases







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n June 13, 2016, the U.S. Supreme Court issued its opinion in *Halo v. Pulse*, overturning the Federal Circuit's long-standing two-step test for willfulness and enhanced damages in patent infringement cases (*Halo Elecs., Inc. v. Pulse Elecs., Inc.*, No. 14-1513, 2016 BL 187307 (U.S. June 13, 2016) (114 PTD,

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6/14/16)). Under the Court's redefined, more flexible standard for awarding enhanced damages, patent owners should have an easier time securing punitive damages awards. Faced with an increased risk of enhanced damages liability, potential infringers should consider investing more heavily in both (1) preemptive, exculpatory opinions of counsel and (2) the damages phase of district court litigation.

Both the history of enhanced damages and the Court's *Halo* opinion make clear that, while the enhanced damages inquiry under 35 U.S.C. § 284 is fact sensitive, willful infringement exposes infringers to enhanced damages liability. Opinions of counsel obtained prior to engaging in potentially infringing conduct can be a cost-effective tool against arguments that infringement was willful. And after litigation has already commenced, litigants should not overlook the damages phase of litigation, as enhanced damages awards are unlikely to be vacated on appeal post-*Halo*.

A History of Section 284

A district court can enhance damages in a patent infringement case under 35 U.S.C. § 284, awarding up to three times the damages award found by a jury or the bench. The statute authorizing trebled damages, how-

ever, does not provide a test or prescription for when such awards are appropriate.

Historically and under U.S. Court of Appeals for the Federal Circuit jurisprudence, enhanced damages could be recovered in cases involving willful or bad-faith infringement. The Patent Act of 1793 mandated treble damages available in *any* successful patent infringement suit (*Halo*, 579 U.S. at 2). But Congress made those damages discretionary in the Patent Act of 1836, authorizing a court, in its power, to increase a damages award up to three-fold (*Id.*). Enhanced damages were reserved for the "wanton and malicious pirate," exempting defendants who acted in good faith or ignorance (*Id.*). District courts' discretion to award damages persevered through the Patent Act of 1870 (*Id.* at 3).

Jurisprudence accordingly tracked the wanton and malicious pirate distinction, and the Supreme Court found enhanced damages awards appropriate for defendants who infringed "under aggravated circumstances," but not for defendants who acted unintentionally or were ignorant of the patent they infringed (*Id.* at 2-4)

Finally, in the 1952 iteration of the Patent Act, Congress enacted Section 284, authorizing enhanced damages (*Id.* at 4). And post-1952 Supreme Court case law interpreted Section 284 as codifying that punitive or increased damages could be recovered in a cases of willful or bad-faith infringement (*Id.*).

Federal Circuit's Seagate Framework

In 2007, however, the Federal Circuit restricted the ability of courts to award enhanced damages for willful infringement. The Federal Circuit's *Seagate* decision outlined a two-step test that had to be met before courts could award enhanced damages (*In re Seagate Tech. LLC*, 497 F.3d 1360, 2007 BL 83845, 83 U.S.P.Q.2d 1865 (Fed. Cir. 2007) (en banc) (162 PTD, 8/22/07)).

Under Seagate, first, the patentee had to show by clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent (Id.). The subjective state of mind of the accused infringer was irrelevant to the "objective recklessness" question (Id.). And objective recklessness could not be found if the infringer, during infringement proceedings, could raise a substantial question as to the validity or noninfringement of the patent (Id. at 1374). Second, the patentee had to prove by clear and convincing evidence that the risk of infringement was either known or so obvious that it should have been known to the accused infringer (Id. at 1371). The second step of Seagate focuses on the subjective knowledge of the accused infringer (Id. at 1384).

Only when both elements had been satisfied could a district court consider whether to exercise its discretion to enhance damages (*Id.*).

And on appeal, the first step of the Seagate analysis—objective recklessness—was reviewed de novo (Bard Peripheral Vascular, Inc. v. W.L. Gore & As-

sociates, Inc., 682 F.3d 1003, 1006-1007, 103 U.S.P.Q.2d 1088 (Fed. Cir. 2012) (116 PTD, 6/18/12)). The second step, the subjective knowledge question, was reviewed for substantial evidence (Id. at 1008). And the overall decision to award damages was reviewed for abuse of discretion (Spectralytics, Inc. v. Cordis Corp., 649 F.3d 1336, 1347, 99 U.S.P.Q.2d 1012 (Fed. Cir. 2011) (115 PTD, 6/15/11)).

The *Halo* and *Stryker* Appeals

Litigants in two Federal Circuit cases where the court applied *Seagate* sought certiorari, and the Supreme Court vacated and remanded both decisions in its consolidated *Halo v. Pulse* opinion. Both cases hinged on *Seagate's* requirement for an assessment of objective recklessness on the part of the accused infringer.

Halo v. Pulse Electronics

In the underlying Halo v. Pulse case, Halo sued Pulse Electronics in the U.S. District Court for the District of Nevada alleging infringement of Halo's patents covering electronic packages containing transformers designed to be mounted to the surface of circuit boards (Halo. v. Pulse, 721 F. Supp. 2d 989, 993, 2010 BL 310441 (D. Nev. 2010)). Before suing for infringement, Halo offered Pulse a license to its patents (Halo v. Pulse, 769 F.3d 1371, 1374-1375, 112 U.S.P.Q.2d 1739 (Fed. Cir. 2014) (205 PTD, 10/23/14). But Pulse rejected the license because one of Pulse's engineers purportedly believed that Halo's patents were invalid (Id. at 1376). Nevertheless, in the district court litigation, a jury found that Pulse had infringed Halo's patents and that there was a high probability that it had done so willfully (Halo v. Pulse, No. 2:07-CV-00331-PMP (D. Nev. May 28, 2013)). But the Nevada court did not award enhanced damages because of Halo's failure to show objectively reckless conduct on the part of Pulse under Seagate (Id.), and the Federal Circuit affirmed (Halo v. Pulse, 769 F.3d at 1381).

Stryker v. Zimmer

In Stryker v. Zimmer, Stryker sued Zimmer for infringing its patents covering a pulsed lavage device used to clean tissue during surgery (Stryker Corp. v. Zimmer Inc., No. 1:10-CV-1223 at 1 (W.D. Mich. Aug. 7, 2013)). After finding that Zimmer infringed the Stryker patents, a jury in the Western District of Michigan awarded Stryker \$70 million in lost profits, and the court added \$6.1 million in supplemental damages (*Id.*). Finding that the two-prong Seagate test had been met by Zimmer's willful infringement, the Michigan court trebled the sum under Section 284, resulting in a total award in excess of \$228 million (Id.). However, the Federal Circuit vacated the damages award on appeal, finding that the district court had failed to properly engage in Seagate's first prong and undertake an objective assessment of Zimmer's defenses to infringement (Stryker Corp. v. Zimmer, Inc., 782 F.3d 649, 662, 114 U.S.P.Q.2d 1187 (Fed. Cir. 2014) (57 PTD, 3/25/15)).

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The Supreme Court's Opinion in Halo

After considering the history of enhanced damages in patent cases and the text of Section 284, the Supreme Court abrogated the *Seagate* framework, holding that: (1) *Seagate*'s two-part test improperly required a finding of objective recklessness as a predicate to enhanced damages; (2) enhanced damages are governed by a preponderance of the evidence standard; and (3) awards of enhanced damages are reviewed for abuse of discretion.

A Finding of Objective Recklessness Is No Longer Required to Receive Enhanced Damages

Critically, the Court found that *Seagate*'s two-part test improperly required courts to find objective recklessness as a prerequisite to awarding enhanced damages. While the objective recklessness standard captures some instances of egregious misconduct, it has the potential to exempt from punishment many of the most culpable offenders, including the "wanton and malicious pirate" intentionally infringing another's patent for no purpose other than to steal the patentee's business (*Halo*, 579 U.S. at 9).

Under Seagate, a court could only force such subjectively bad actors to pay enhanced damages when the infringement was also objectively reckless. But the Court found this to be an absurd result: "In the context of such deliberate wrongdoing, however, it is not clear objective independent showing of an recklessness-by clear and convincing evidence, no less—should be a prerequisite to enhanced damages.' (Id). Indeed, the Court found that in some circumstances the subjective willfulness of a patent infringer may warrant enhanced damages without regard for whether the infringement was objectively reckless (*Id*).

Seagate's emphasis on objective recklessness protected willful infringers who could muster a reasonable—even if unsuccessful—defense to infringement at trial (*Id.* at 10). But the Court explained that culpability is properly measured against the knowledge of the actor at the time of the challenged conduct—before an infringement suit commences (*Id*). The Court also found that dismissing a claim for willful infringement based on legal theories advanced by the actor's attorney after the fact was at odds with its prior jurisprudence on culpability (*Id.* at 10-11).

Thus, the Court replaced the *Seagate* framework with a more fact sensitive, discretionary standard that does not require a finding of objective recklessness (*Id.* at 11). Courts can award damages under Section 284 in their discretion after taking into account the particular circumstances of each case (*Id*). And consistent with nearly two centuries of enhanced damages jurisprudence, courts should enhance damages in egregious cases typified by willful conduct, though they are expected to be rare (*Id*).

Entitlement to Enhanced Damages Need Only Be Proven by a Preponderance of the Evidence

Moreover, the Court rejected the clear and convincing evidence standard for awards of enhanced damages in favor of a preponderance of the evidence standard (*Id.* at 12). Section 284 imposes no specific evidentiary burden, much less a high one (*Id.*). And the Court found nothing in historical practice to suggest that enhanced damages in patent cases should be held to a heightened

standard (*Id*). Rather, the Court found that "patent infringement litigation has always been governed by a preponderance of the evidence standard," and "[e]nhanced damages are no exception." (*Id.*, internal quotation marks omitted).

Enhanced Damages Awards Are Reviewed Only for an Abuse of Discretion

Finally, the Court rejected the Federal Circuit's tripartite framework for evaluating enhanced damages awards under Section 284 on appeal (*Id*). Replacing this trifurcated standard of appellate review with a pure abuse of discretion standard, the Court made clear that district courts are to award enhanced damages in their discretion, which will not be lightly overturned (*Id*. at 12-13). Rather, decisions are to be reviewed on appeal for an abuse of discretion." (*Id*. at 13).

The Aftermath

After *Halo*, patent owners seeking enhanced damages are no longer required to prove that an accused infringer acted with objective recklessness. When a patent owner does make its case for enhanced damages, the burden to prove willful infringement has been lowered to a preponderance of the evidence. And if the patent owner prevails on willfulness at the district court, they will be secure in the knowledge that enhanced damages awarded are unlikely to be overturned at the Federal Circuit.

These dramatic changes to the *Seagate* enhanced damages rubric should give potential infringers pause. Parties accused of infringement can expect emboldened patent owners to seek enhanced damages awards and to prevail more often under these new, lower standards.

Indeed, in the week since *Halo* issued, the Supreme Court vacated another Federal Circuit decision denying enhanced damages under *Seagate* (*Innovention Toys v. MGA Entertainment, Inc.*, No. 15-635 (U.S., granted, vacated, remanded Jun. 20, 2016) (119 PTD, 6/21/16)). In *Innovention*, the Federal Circuit overturned a \$4.7 million enhanced damages award because the invalidity defense asserted in district court—although rejected by the jury—was not sufficiently unreasonable to satisfy the *Seagate* objective recklessness standard (*Innovention Toys, LLC v. MGA Entm't, Inc.*, 611 Fed. Appx. 693, 2015 BL 123353 (Fed. Cir. 2015) (84 PTD, 5/1/15)). The Supreme Court vacated the Federal Circuit's judgment and immediately remanded the case for further consideration in light of *Halo*.

Opinions of Counsel Are of Renewed Importance

Halo did not undo one key aspect of Seagate-era willfulness law—accused infringers still do not have an affirmative duty to obtain advice of counsel prior to initiating potentially infringing activity, and an adverse inference will not be drawn if an exculpatory opinion is not produced in litigation. This has effectively been codified by 35 U.S.C. § 298, which was enacted as part of America Invents Act of 2012. Nevertheless, a well-written opinion of counsel preferably crafted before potential infringing activity occurs—or at least before litigation commences—still serves as the most persuasive evidence of good faith.

Post-Seagate, there was a perception that preemptive opinions of counsel were less necessary than they once were. With patent owner's being required to establish

objective recklessness on behalf of the accused infringer, the accused infringer could wait until after being sued to craft an objectively reasonable noninfringement or invalidity position, regardless of its subjective intent

But *Halo* has changed that calculation. The Court in *Halo* made clear that after-the-fact opinions of counsel merely confirming that an activity does not infringe or that the patent is invalid cannot be used to refute a patent owner's assertions at trial that the accused infringer acted willfully. The timeframe during which to assess subjective willfulness—and therefore the time to obtain an exculpatory opinion of counsel—is early on after obtaining knowledge of third party patent rights, preferably prior to engaging in any potentially infringing activity.

Going forward, potential infringers may need to reconsider practices, dubbed by some in the industry as "efficient infringement," where third party patent rights are largely ignored up and until they must grudgingly be dealt with in litigation. Waiting for a complaint to be filed and avoiding the costs associated with procuring a proactive opinion of counsel despite knowing infringement is a much riskier strategy post-Halo. While not insignificant, the cost of a competent opinion of counsel still pales in comparison to enhanced damages when a company's key products are on the line. Inhouse counsel should carefully weigh the costs and benefits of securing an opinion going forward, and may be wise to consider the need to revisit cases where products have been released in the past but where future post-Halo litigation is a known threat.

Litigants Should Invest in the Damages Phase of Litigation

The damages stage of litigation is now decidedly higher stakes. Accused infringers are more likely to be held accountable for enhanced damages, and patent owners have an increased ability to secure up to three times their damages awards. In such a climate, all litigants should invest significant resources and time into their damages strategy.

On the patent owner side, investing the time to develop a strong damages case can pay for itself several times over. On the infringer side, investing in litigation counsel and developing defenses to willful infringement may help to avoid a potentially crushing damages award.

Highlighting the importance of investment in the damages phase of litigation in the new post-*Halo* era is the new standard for appellate review of enhanced damages rulings. Previously, enhanced damages were subject to a complicated tripartite review—in which each step of the *Seagate* analysis was reviewed under a different standard. Enhanced damages are now reviewed for abuse of discretion. Under the abuse of discretion standard, the Federal Circuit has a reduced license to overturn damages awards, and, in most cases, litigants will have one chance to argue for or against treble damages—in front of a district court judge.

Conclusion

Halo has dramatically altered the landscape for damages in patent infringement cases. Under the new, lower standard for awarding enhanced damages, district court judges have license to award enhanced damages in more cases, and, in this climate, potential infringers should preemptively seek out opinions of counsel as a defense to allegations of willfulness. Further, both patent owners and accused infringers should invest more heavily in the damages phase of litigation, as appellate review of enhanced damages awards is now more limited.