



# What has changed after Halo

Case overturns earlier *Seagate* opinion on wilful infringement. **Mike Turner** examines the implications

**A**s the Supreme Court of the US recently noted, “enhanced damages are as old as US patent law”. The Patent Act allows for treble damages – a tool traditionally used to punish wilful infringers – but this has not been used much of late. In its 2007 *Seagate* opinion,<sup>1</sup> the US Court of Appeals for the Federal Circuit established a two-part test for willfulness under which a patent owner must prove by clear and convincing evidence that a defendant’s actions were subjectively in bad faith *and* recklessly undertaken without an objectively reasonable defence. Without willfulness, there are no enhanced damages. Over time, *Seagate*’s recklessness assessment became a threshold question of law that usually prevented willfulness from reaching a jury because a decent patent litigator can almost always conjure at least a reasonable defence to any claim of infringement.

Thus, under *Seagate*, so long as a defendant presented a reasonable *albeit* unsuccessful defence during litigation, the defendant was immune from willfulness and the associated enhanced damages penalty. Indeed, a defendant could purposefully copy a competitor’s patented design knowing of the patent and without investigating any defences at the time of infringement, yet risk, at most, damages of a reasonable royalty. Because that is merely the amount the defendant theoretically would have paid had it taken a licence from the competitor in the first place, *Seagate* did little to discourage wilful infringement.

## Halo overturns Seagate

This did not sit well with the Supreme Court. On 13 June by unanimous decision, the court in *Halo v Pulse Electronics*<sup>2</sup> overturned *Seagate*’s test, replacing it with mere

judicial discretion. The court specifically criticised *Seagate*’s requirement to find objective recklessness, noting that “bad faith infringement is an independent basis for enhancing patent damages”. The court also lowered the standard for finding willfulness to one of a preponderance of the evidence and set the appellate review standard at abuse of discretion.

Throughout its decision, the court cited its 2014 holding in *Octane Fitness*.<sup>3</sup> *Octane Fitness* dealt with attorneys’ fees (compensation for the plaintiff), while *Halo* dealt with enhanced damages (punishment for the defendant). But the two concepts are linked in many ways and in both cases the Supreme Court unravelled rigid, long-standing Federal Circuit tests that made either remedy very difficult to achieve. Both attorneys’ fees and enhanced damages are now available at the discretion of the district court and without a heightened evidentiary standard.

## Halo will make enhanced damage awards more common

The *Halo* decision has already sparked an outcry, primarily from large technology companies that are often the target of patent litigation at the hands of non-practising entities (NPEs). United for Patent Reform, a lobbying group funded by such companies, immediately issued a press release claiming that *Halo* “will incentivise patent trolls to file more lawsuits and only worsen the already critical problem of patent litigation forum shopping”.<sup>4</sup> As if on cue, a court in the Eastern District of Texas cited *Halo* when vacating a Western District of Oklahoma order that had granted a group of multi-district litigation defendants summary judgment of no willfulness.<sup>5</sup>

In truth, NPEs did not lack incentive to

file suit prior to *Halo*, and *Octane Fitness* likely quells any alleged increased incentive with the threat of fees for frivolous litigation. And while there is no doubt that all potential patent defendants should consider the effects of *Halo*, the Supreme Court was careful to note that “discretion is not whim”, and that courts should be guided by precedent that reserves enhanced damage awards for cases of “wilful, wanton, malicious” conduct. However, discretion with no statutory limit is broad and difficult to challenge on appeal. Without the bright line ‘objective reasonableness’ test to point to, defendants must convince an appellate panel that a district court ignored the evidence, and thus *did* act on a whim in enhancing damages. *Halo* does not so much make enhanced damages available to patent owners as it lowers the barrier for courts to award them when deserved.

Given that the Supreme Court’s modification to the test for attorneys’ fees in *Octane Fitness* was very similar to how it modified the test for enhanced damages in *Halo*, one might look to the effect *Octane Fitness* had on attorneys’ fees awards as an indication of *Halo*’s likely effect on awards of enhanced damages. As shown in the chart on p53, there is no question such an effect occurred. The chart shows awards of attorneys’ fees against a single party of \$100,000 or more in patent cases in the two years before and two years after *Octane Fitness*.<sup>6</sup> Awards of \$100,000 or more increased more than 150% (from 21 to 54), and awards over \$1m (suggesting fees across an entire case) increased more than 450% (from five to 23). While the factors and considerations differ between attorneys’ fees and enhanced damages, a similar increase should be expected after *Halo*.

**No need to panic**

Whether this is good news or bad news depends very much on which side of the 'v' your employer falls. For potential patent plaintiffs facing stubborn, knowing infringers, but frustrated by the previous risk/reward profile of a patent lawsuit, *Halo* shifts that profile in their favour. For potential patent defendants *Halo* presents an increased risk. However, potential defendants themselves are in the best position to decrease or nearly eliminate that risk and the *Halo* opinion provides some insight on how to do so.

First, citing its own precedent, the Supreme Court reinforced that enhanced damages are reserved for "cases of wilful or bad-faith infringement".<sup>7</sup> The subjective bad faith component of *Seagate* remains and is a fact question for the jury.<sup>8</sup> An infringer that acted without knowledge of the patent, or with a well-developed, documented and reasonable position as to why it did not infringe, should have little to fear.

Secondly, the court noted that "culpability [is] generally measured against the knowledge of the actor at the time of the challenged conduct". While a reasonable defence developed during litigation by an attorney will no longer bar an enhanced damages award, that same defence developed and well documented at the time the defendant learned of the patent will be useful in most cases.

Finally, judicial discretion means that a jury finding of willfulness merely authorises, rather than mandates, an award of enhanced damages. The court continually pointed out that such awards should be reserved for egregious cases and that precedent provides a guideline in applying discretion. While *Seagate* is gone, the far older guidelines from *Read v Portec* remain and these have long been used to determine whether and how much to award once willfulness has been established.<sup>9</sup> These 'Read factors' (more below) can also serve as guides to mitigate potential risk.

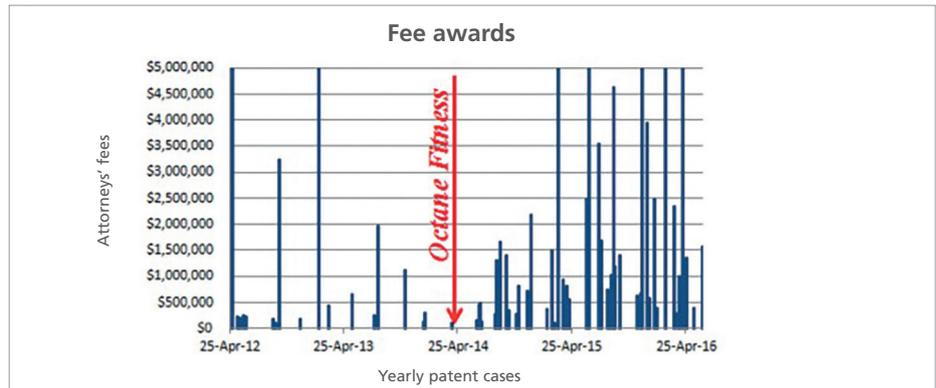
**Keep calm and call your patent attorney**

Using this insight, there are some practical steps one can take to mitigate risk upon learning of a concerning patent:

**Don't copy.** The first *Read* factor is whether the infringer deliberately copied. Thus, the long-standing approach remains useful: unless the technology is clearly in the public domain, one should seek avenues to modify their conduct/product to design around the patent claims.

**Document your thought process.** The second *Read* factor is what the defendant

Figure 1: Fee awards



did when he knew of the other's patent. A defendant testifying that he thought a certain way 10 years ago when first seeing the patent will carry little weight when attempting to avoid a finding of willfulness. However, a dated document showing that the defendant took concrete and reasonable steps to analyse the patent and develop defences or a design-around prior to proceeding will carry weight. How much weight will depend on the circumstances and sophistication of the defendant. One way to increase the weight is to...

**Get an opinion of counsel.** *Halo* should not be seen as a return to the pre-*Seagate* standard of *Underwater Devices*, where an opinion of counsel was all but necessary to avoid willfulness.<sup>10</sup> However, a well-reasoned opinion is useful at trial and one should consider seeking legal advice as soon as one learns of a credible threat. The detail of an opinion should be commensurate with the level of risk and sophistication of the client. More important than detail is that the opinion is well reasoned and formed by a US patent attorney who conducted an independent and thorough analysis. Do not leave patent analysis to your R&D department. In fact, you should have a mechanism in place to ensure engineers report potential infringement risks to legal without prompting. A document showing an engineer had unreported concerns over a patent could be devastating at trial.

**Be sure the decision maker considers the opinion/defences.** Opinions of counsel and documented defences do little good if the company representative at trial has no memory of ever having seen or considered them. The reliance witness does not have to understand every legal facet in the opinion or functional distinction in the product, but documented evidence that they clearly considered and relied on the opinion or defence is critical.

**Stop the bleeding.** Two other *Read* factors are the duration of defendant's conduct and remedial action by the defendant. If you now

find yourself in a situation where the barn door is open and it is too late for the previously mentioned tips to help a particular situation, make and document every effort to cease any potential infringement in hopes of at least reducing potential enhancement.

**Footnotes**

1. *In re Seagate Tech, LLC*, 497 F3d 1360 (2007) (en banc).
2. *Halo Elecs, Inc v Pulse Elec, Inc*, No 14-1513, 579 US \_\_\_, 2016 US Lexis 3776 (13 June 2016).
3. *Octane Fitness, LLC v ICON Health & Fitness Inc*, 572 US \_\_\_, 134 S. Ct. 1749 (2014).
4. See [www.unitedforpatentreform.com/files/halo-styker-statement-6-14-16885091629.pdf](http://www.unitedforpatentreform.com/files/halo-styker-statement-6-14-16885091629.pdf)
5. See *Transdata, Inc v Denton Municipal Elec, et al*, 10-cv-557, Order (ED Tex 29 June 2016).
6. This chart was created by the author using case data available through Docket Navigator. To focus on quantity over size, the chart truncates large awards at \$5m.
7. Citing *Aro Mfg Co v Convertible Top Replacement Co*, 377 US 476, 508 (1964).
8. See *Presidio Components, Inc v Am Tech Ceramics Corp*, 14-cv-2061, 2016 US Dist Lexis 82532, \*44-46 (SD Cal 17 June 2016) (applying *Halo* to a jury verdict on willfulness).
9. *The Read Corp v Portec, Inc*, 970 F3d 816, 826-27 (Fed Cir 1992).
10. *Underwater Devices, Inc v Morrison-Knudsen Co*, 717 F2d 1380 (Fed Cir 1983).

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