

*The “Halo Swing”—The Law of Willful
Infringement Changes Again*

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John T. Johnson

Principal, NY

Michael F. Autuoro

Principal, NY

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Halo Electronics, Inc. v. Pulse Electronics, Inc.

- Decided June 13, 2016
- Unanimous
- Breyer concurrence (joined by Kennedy and Alito)
- *Seagate* test for willfulness is “unduly rigid, and it impermissibly encumbers the statutory grant of discretion to district courts.”

(Slip Opinion)

OCTOBER TERM, 2015

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Syllabus

NOTE: Where it is feasible, a syllabus (headnote) will be released, as is being done in connection with this case, at the time the opinion is issued. The syllabus constitutes no part of the opinion of the Court but has been prepared by the Reporter of Decisions for the convenience of the reader. See *United States v. Detroit Timber & Lumber Co.*, 200 U. S. 321, 337.

SUPREME COURT OF THE UNITED STATES

Syllabus

HALO ELECTRONICS, INC. *v.* PULSE ELECTRONICS, INC., *ET AL.*

CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

No. 14–1513. Argued February 23, 2016—Decided June 13, 2016*

Section 284 of the Patent Act provides that, in a case of infringement, courts “may increase the damages up to three times the amount found or assessed.” 35 U. S. C. §284. The Federal Circuit has adopted a two-part test for determining whether damages may be increased pursuant to §284. First, a patent owner must “show by clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent.” *In re Seagate Technology, LLC*, 497 F. 3d 1360, 1371. Second, the patentee must demonstrate, also 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.” *Ibid.* Under Federal Circuit precedent, an award of enhanced damages is subject to trifurcated appellate review. The first step of *Seagate*—objective recklessness—is reviewed *de novo*; the second—subjective knowledge—for substantial evidence; and the ultimate decision—whether to award enhanced damages—for abuse of discretion.

In each of these cases, petitioners were denied enhanced damages under the *Seagate* framework.

Held: The *Seagate* test is not consistent with §284. Pp. 7–15.

(a) The pertinent language of §284 contains no explicit limit or condition on when enhanced damages are appropriate, and this Court has emphasized that the “word ‘may’ clearly connotes discretion.” *Martin v. Franklin Capital Corp.*, 546 U. S. 132, 136. At the same time, however, “[d]iscretion is not whim.” *Id.*, at 139. Although there

*Together with No. 14–1520, *Stryker Corp. et al. v. Zimmer, Inc., et al.*, also on certiorari to the same court.

Today's Outline

- Importance of Willful Infringement—What's the Big Deal?
- What is Willful Infringement? How Has it Developed Over the Past 20 years?
- What Happened in *Halo*—How Did it Change Existing Law? What is the Swing?
- Open Questions after *Halo* & Practical Implications
- Questions/Discussion

What's the Big Deal?

Can Possibly Mean Enhanced Damages & Attorneys' Fees



What's the Big Deal?

Enhanced Damages Up to Three Times

- The Patent Act (35 U.S.C § 284) gives district courts statutory authority to enhance damages:

“Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, [T]he court may increase the damages up to three times the amount found or assessed.”

- At the discretion of the district court judge
- “Up to three times”

What's the Big Deal?

Attorneys Fees

- The Patent Act (35 U.S.C. § 285) gives a court statutory authority to award attorney fees to the prevailing party in exceptional cases:

“The court in exceptional cases may award reasonable attorney fees to the prevailing party.”

- Willful infringement is a basis for exceptionality
- At the discretion of the district court judge

What's the Big Deal?

Potential Jury Impact

- Evidence of willful infringement can be damaging to the Defendant's image
- Can predispose the jury against the Defendant

What's the Big Deal?

Bottom Line

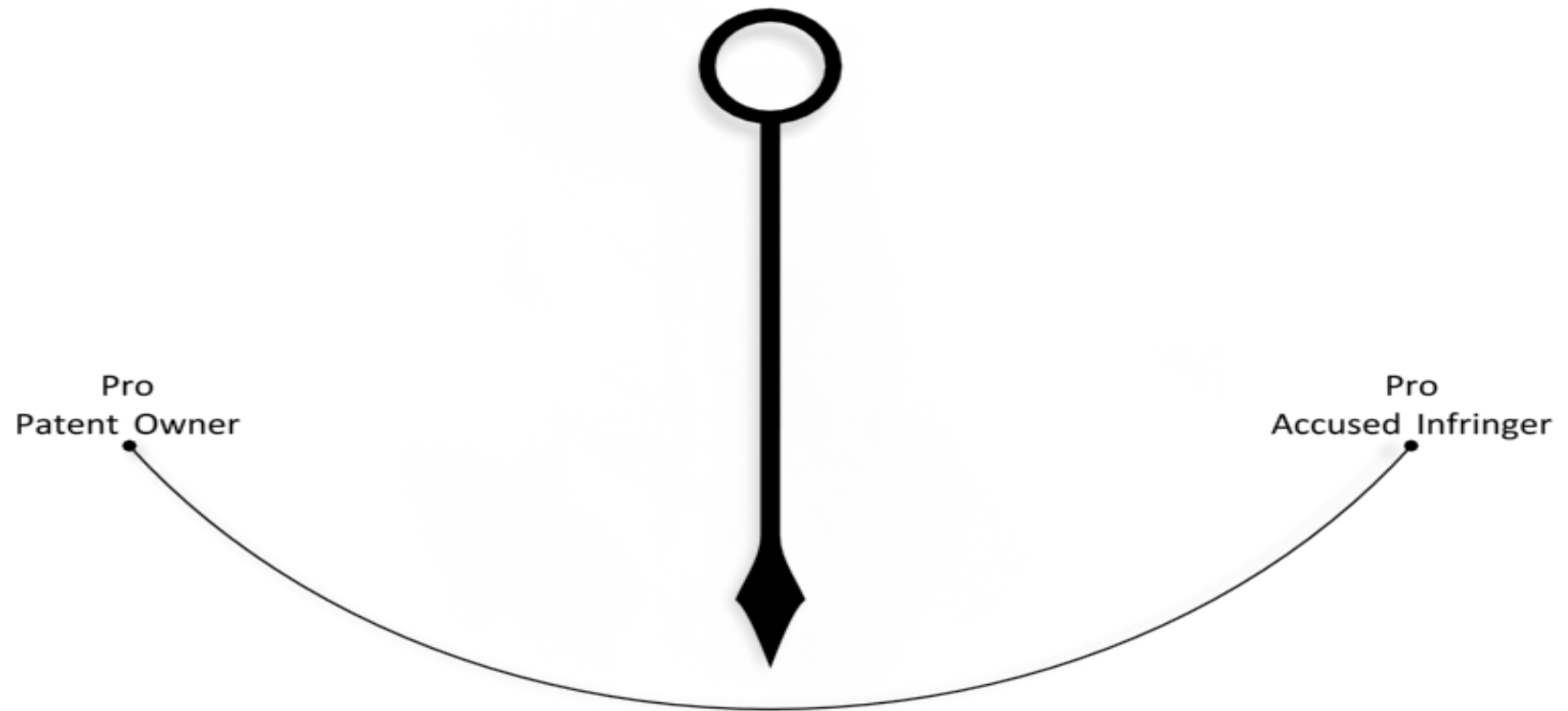
- Enhanced Damages
 - Median Award = \$7.3 million
- Attorneys Fees (per AIPLA Economic Survey)
 - if potential risk is > \$25 million, then > \$6 million
 - If \$10—25 million case, then > \$3 million in fees
 - \$1—10 million, then >\$2 million in fees
- Potential Negative Jury Impact Against Defendant

Some History...

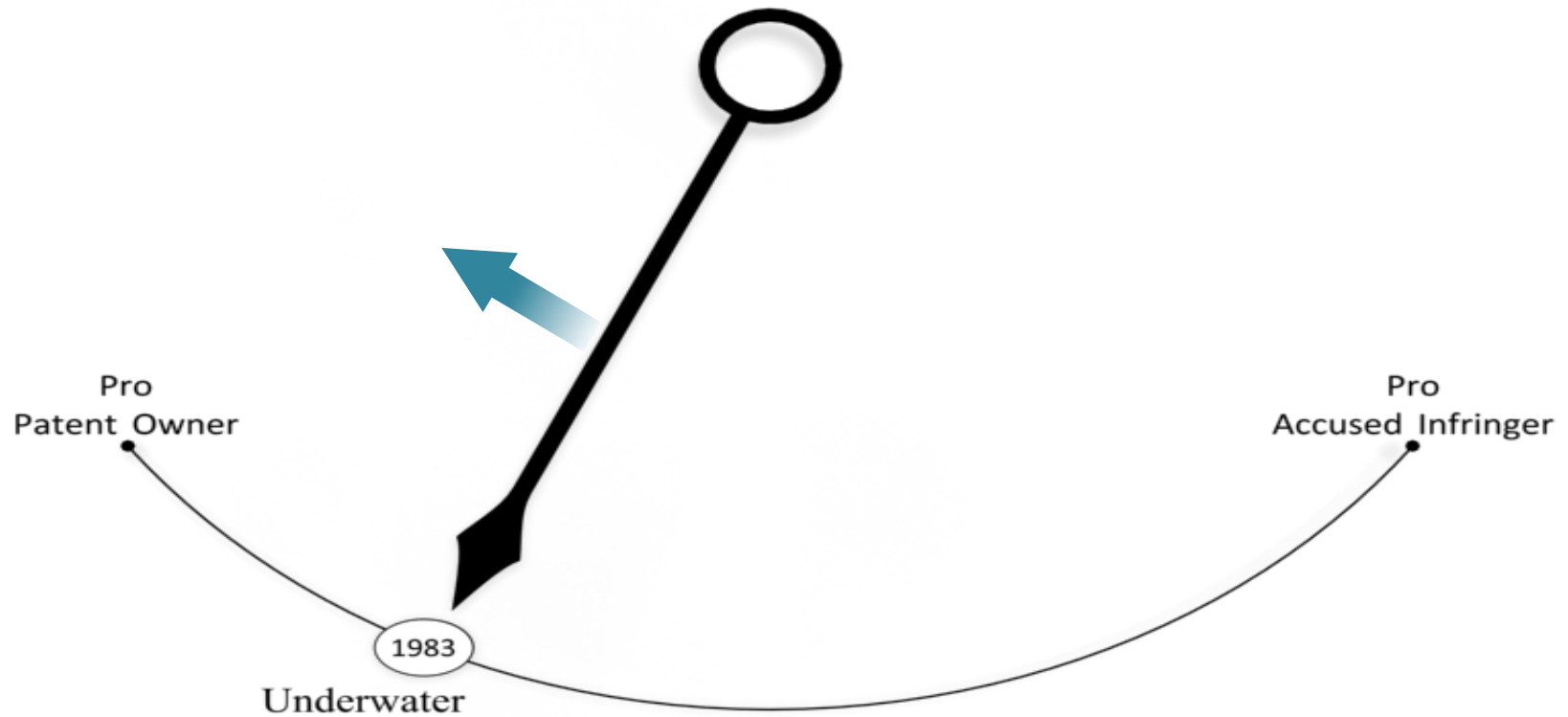
Federal Circuit Develops Willful Infringement Jurisprudence

- 1982 – CAFC formed, in part to combat disrespect for patent rights
- 1983 – *Underwater Devices* (affirmative duty of care/seek and obtain opinion)
- 1986 – *Kloster Speedsteel* (adverse-inference rule)
- 2004 – *Knorr-Bremse* (adverse-inference rule thrown out)
- 2007 – *Seagate* (two-part objective-subjective test)
- 2012 – *Bard* (judge decides objective part of test)
- 2016 – Supreme Court in *Halo* (two-part objective-subjective test thrown out)

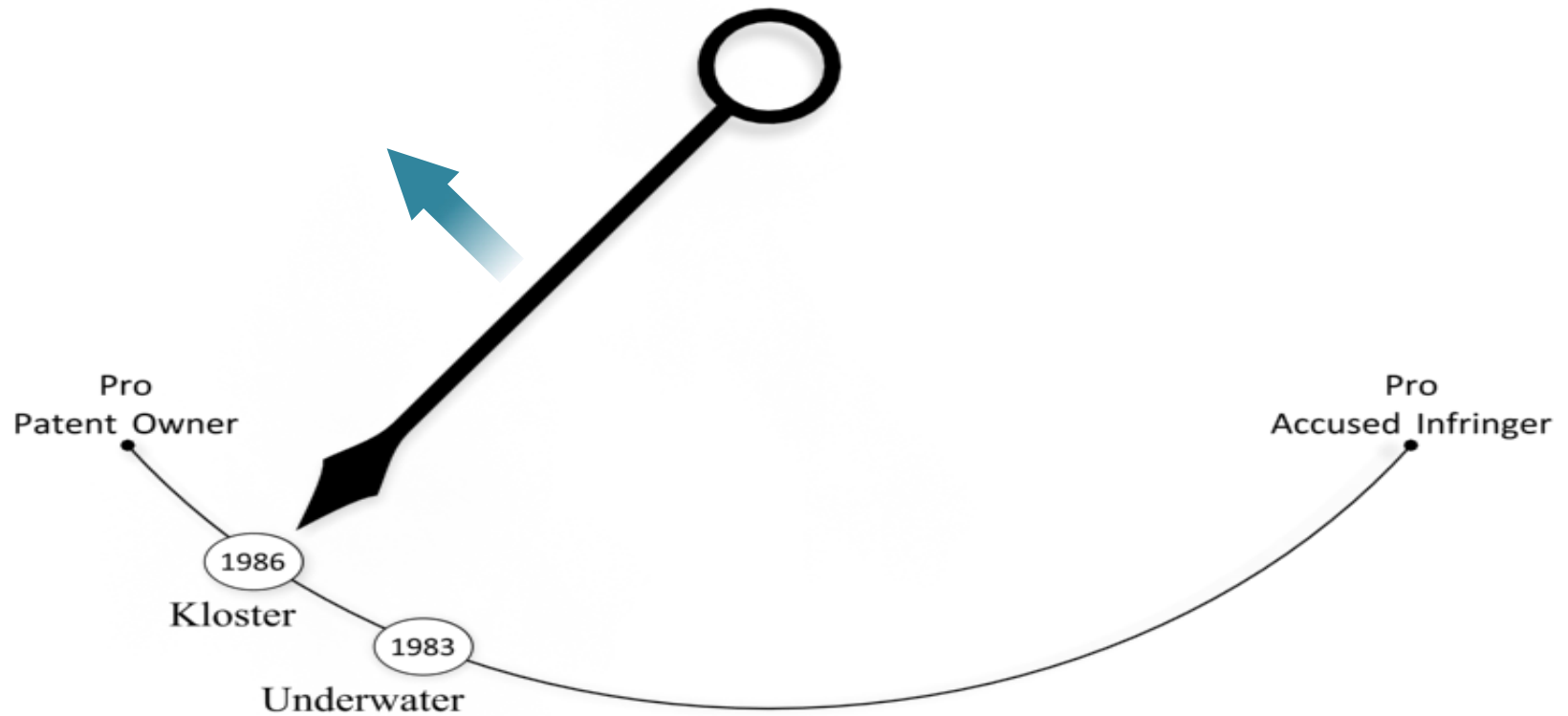
The Halo Swing



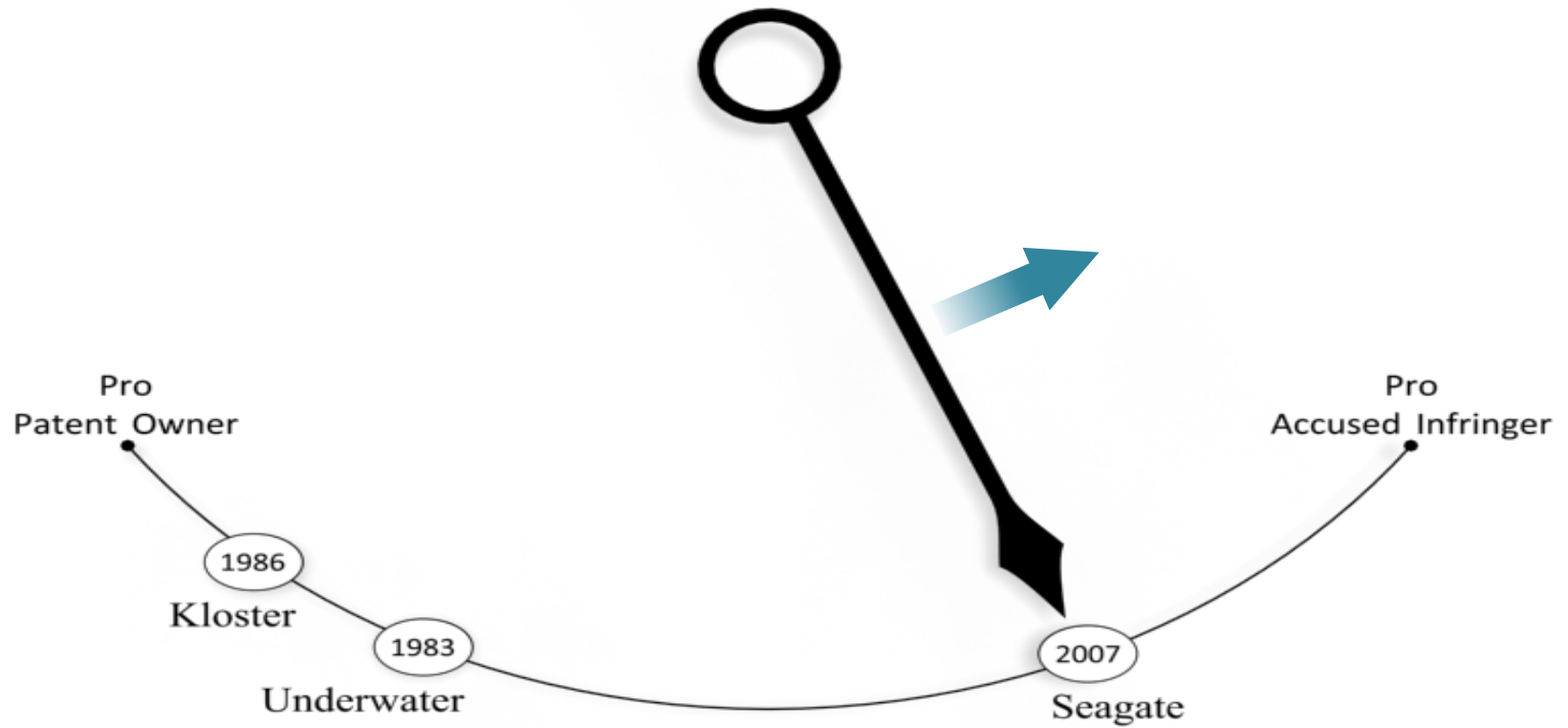
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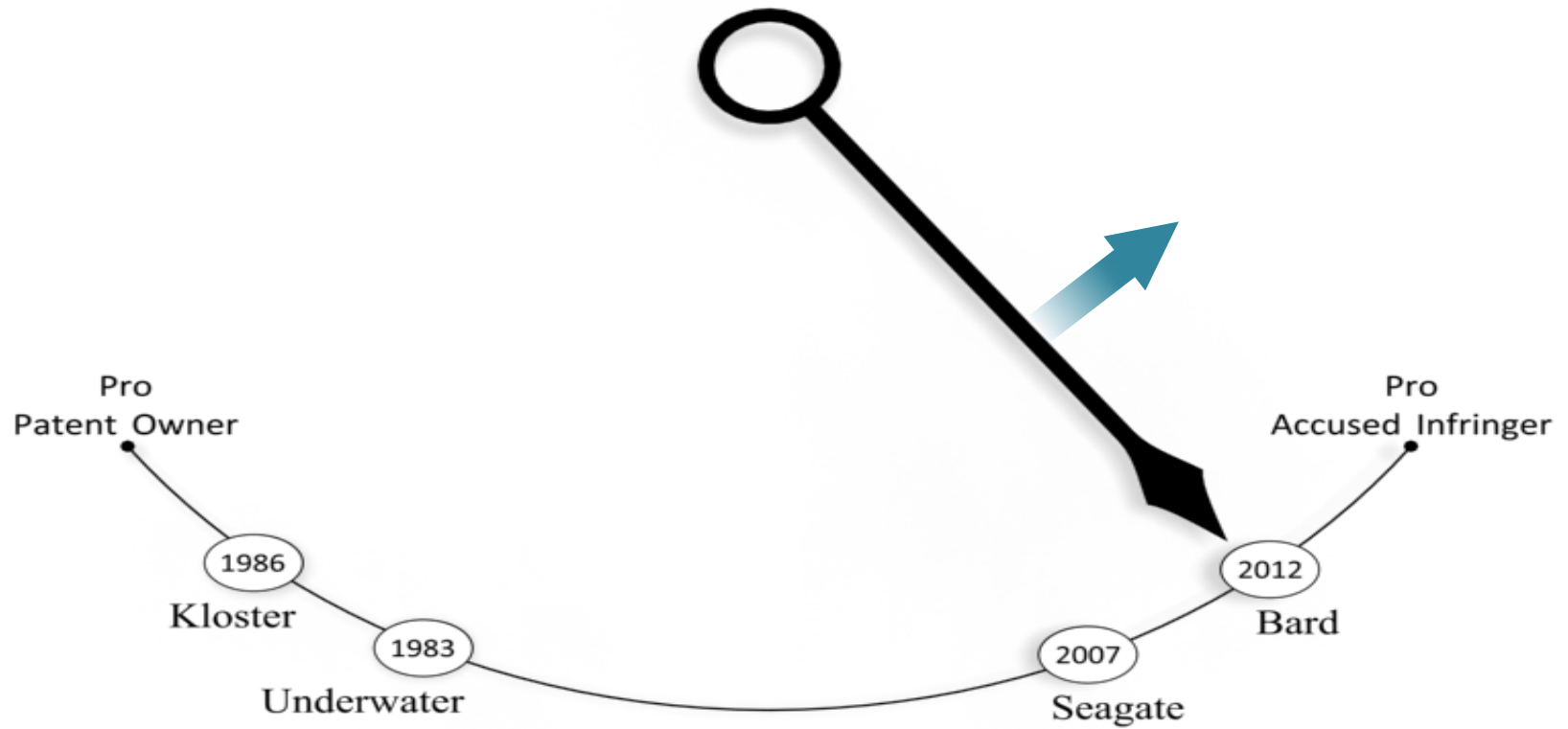
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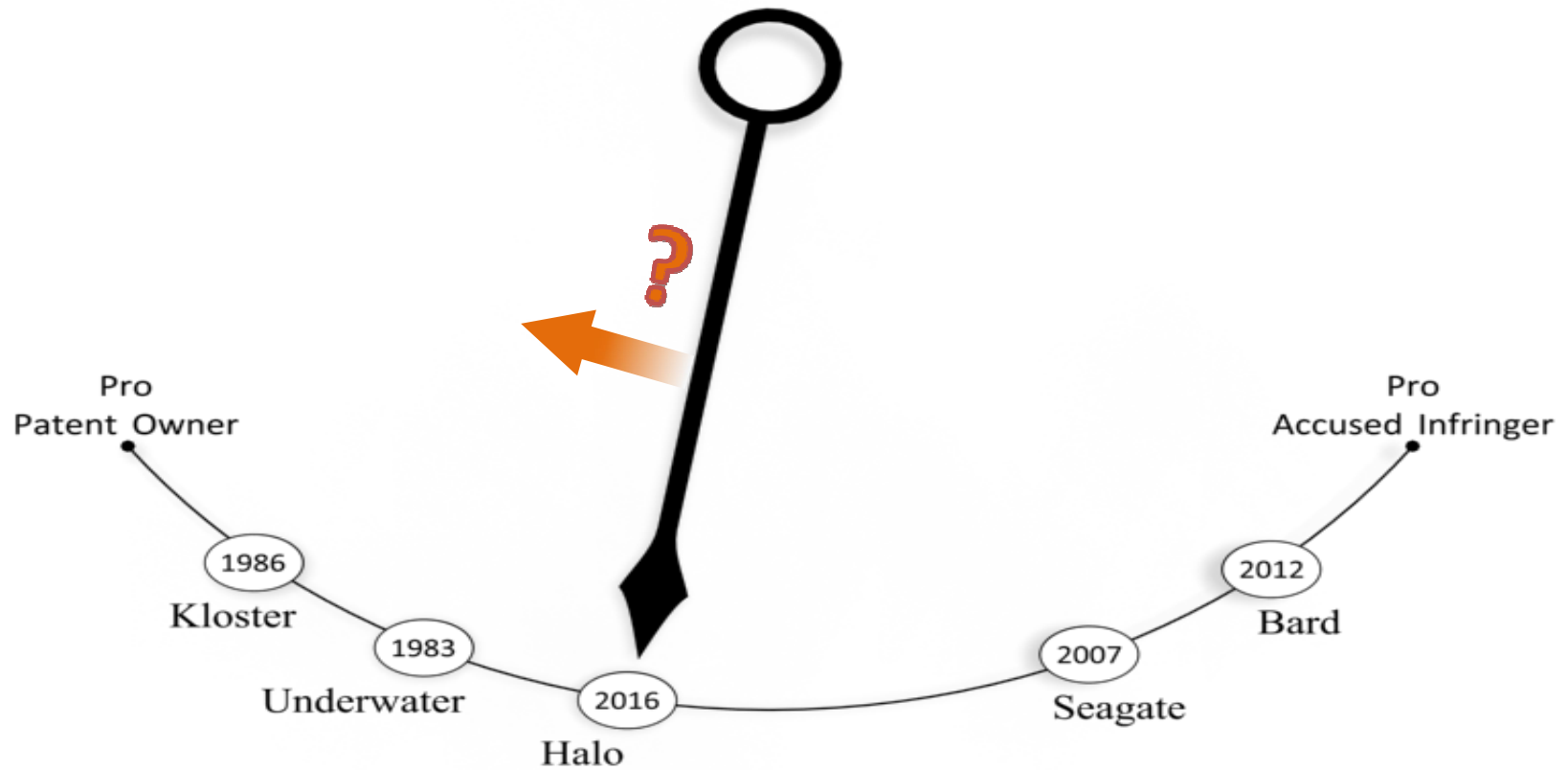
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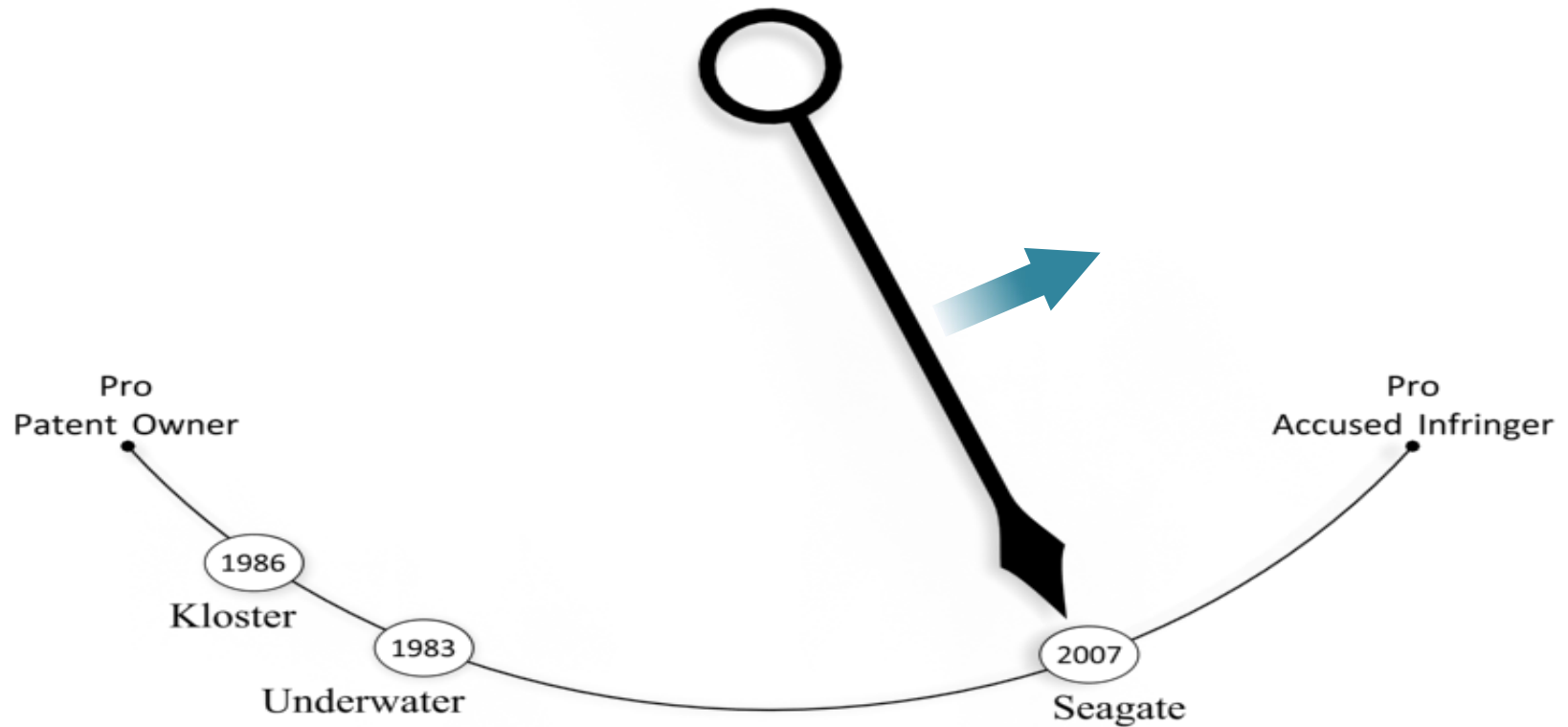
The Halo Swing



The Halo Swing



The Halo Swing - *Seagate*



Some History... Seagate

Seagate (2007)

- Federal Circuit creates a new two-part test for willful infringement (objective and subjective recklessness)

Some History... Seagate

Seagate (2007) – Objective Part

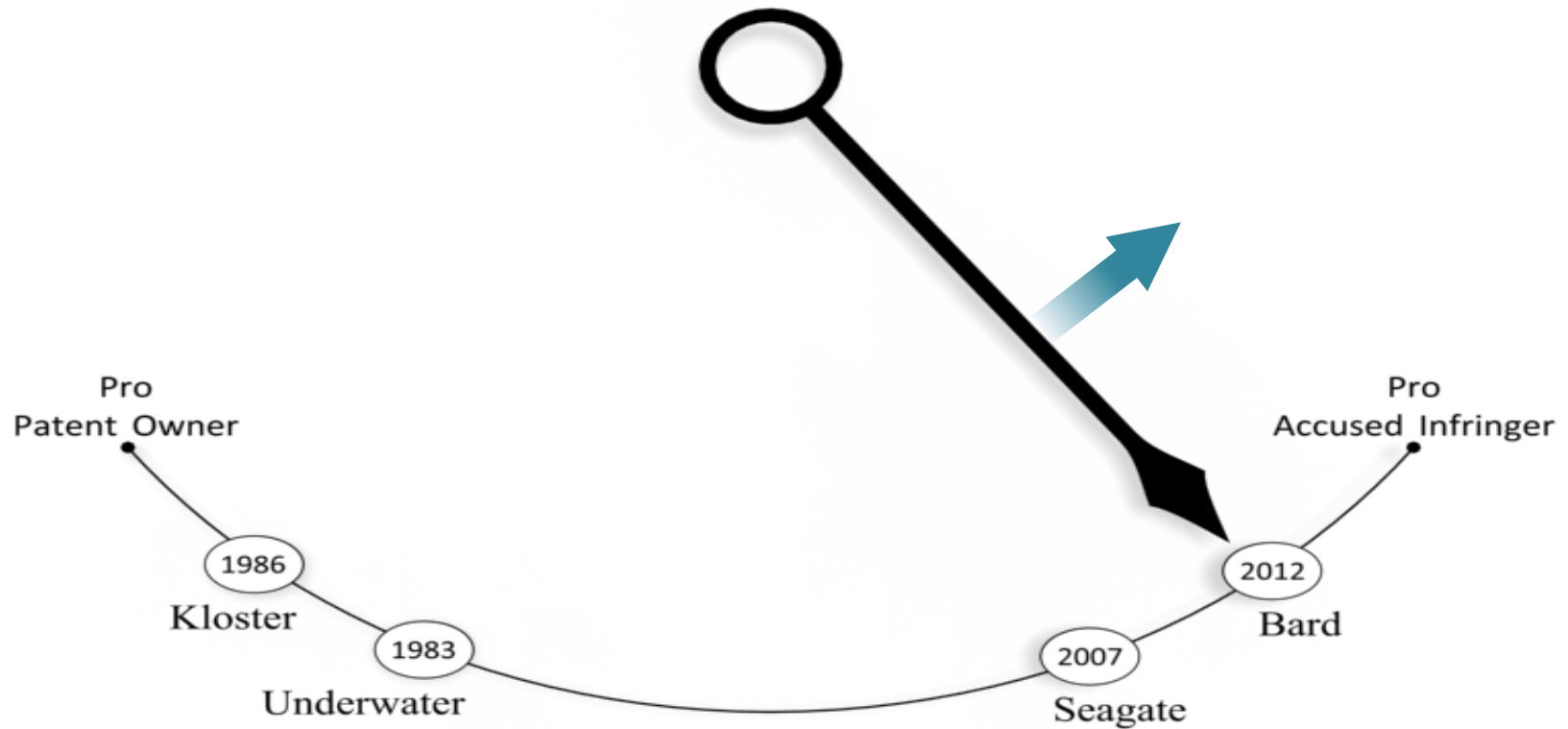
- “To establish willful infringement, a patentee must show by clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent.”
- A threshold inquiry (don’t go on to subjective part unless objective part of test met)
- Evaluate possible claim construction, non-infringement or invalidity defenses, which could theoretically be made on behalf of someone in Defendant’s position – if these are reasonable then no objective recklessness

Some History... Seagate

Seagate (2007) – Subjective Part

- “[T]he patentee must also demonstrate that this objectively-defined risk (determined by the record developed in the infringement proceeding) was either known or so obvious that it should have been known to the accused infringer.”
- Subjective factors
 - Defendant’s actual mental state
 - Knowledge of patentee’s patented technology?
 - Copying evidence?
 - Emails, e.g., “I don’t care about this patent.”
 - Prior notice?
 - What do about the notice (e.g., investigate)?
 - Conceal infringement?

The Halo Swing — *Bard*

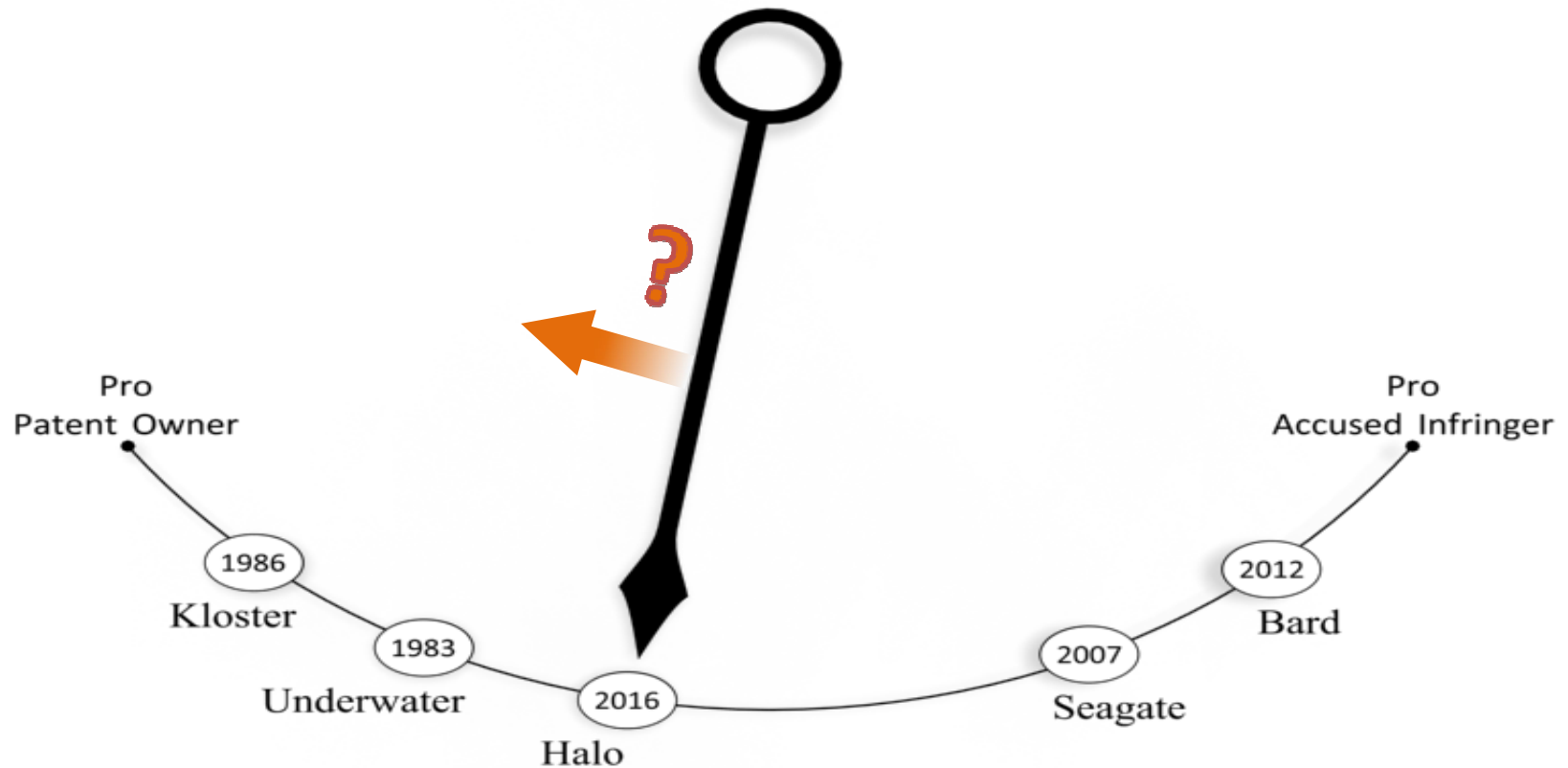


Some History... Federal Circuit Goes Further

Bard (2012)

- Objective part is a question of law for the judge
- Easier to get rid of willfulness pre-trial (e.g., summary judgment) if have a reasonable defense generated at any time
- Jury may not see any of the potentially damaging evidence (copying, concealment of infringement, ignoring notice of infringement)

The Halo Swing – Supreme Court Speaks



The Supreme Court Speaks

Halo (2016)

- Seagate test for willfulness is “unduly rigid, and it impermissibly encumbers the statutory grant of discretion to district courts.”
- Seagate’s objective recklessness requirement “excludes from discretionary punishment many of the most culpable offenders, such as the ‘wanton and malicious pirate’ who intentionally infringes another’s patent—with no doubts about its validity or any notion of a defense—for no purpose other than to steal the patentee’s business.” 136 S. Ct. at 1932

The Supreme Court Speaks

Halo (2016)

- “Under that standard, someone who plunders a patent—
infringing it without any reason to suppose his conduct is
arguably defensible—can nevertheless escape any
comeuppance under § 284 solely on the strength of his
attorney's ingenuity.” 136 S. Ct. at 1933
- Supreme Court referenced “attorney’s ingenuity”

The Supreme Court Speaks

Halo (2016)

- Culpability “generally measured against the knowledge of the actor at the time of the challenged conduct”
- Enhanced damages not automatic – “courts should continue to take into account the particular circumstances of each case in deciding whether to award damages, and in what amount.”
- Use “preponderance” of evidence instead of “clear and convincing”
- Appellate review – abuse of discretion standard rather than de novo

Open Questions

What is Egregious Behavior?

- “Awards of enhanced damages under the Patent Act over the past 180 years establish that they are not to be meted out in a typical infringement case, but are instead designed as a “punitive” or “vindictive” sanction for egregious infringement behavior. 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.” 136 S. Ct. at 1932.
- District courts should exercise discretion to enhance damages in “egregious cases typified by willful misconduct.” 136 S. Ct. at 1932.

Open Questions

What is Egregious Behavior?

- The Read factors (*Read Corp. v. Portec, Inc.*, 970 F.2d 816, 827 (Fed. Cir. 1992)):
 - (1) whether the infringer deliberately copied the ideas or design of another;
 - (2) whether the infringer, when he knew of the other's patent protection, investigated the scope of the patent and formed a good-faith belief that it was invalid or that it was not infringed; and
 - (3) the infringer's behavior as a party to the litigation.
 - (4) Defendant's size and financial condition.
 - (5) Closeness of the case.
 - (6) Duration of defendant's misconduct.
 - (7) Remedial action by the defendant.
 - (8) Defendant's motivation for harm.
 - (9) Whether defendant attempted to conceal its misconduct.

Open Questions – Jury or Judge?

Who Decides Willful Infringement and Enhanced Damages?

- Role of judge vs. jury in deciding willful infringement
- Who decides enhanced damages?

Open Questions – Jury or Judge?

Who Decides Willful Infringement?

- *WBIP, LLC v. Kohler Co.*, No. 2015-1038, 2016 WL 3902668, at *15 n.13 (Fed. Cir. July 19, 2016)
 - “there is a right to a jury trial on the willfulness question.”
 - “Our case law is clear that in the absence of the Court overturning our established precedent that precedent remains in effect.”
- But district court judge decides enhanced damages

Halo—Concurring Opinion

Concurrence (Justice Breyer, joined by Justices Kennedy & Alito)

- Willfulness cannot be based on “evidence [that] shows that the infringer knew about the patent and nothing more.”
- Failure to obtain advice of counsel still may not be used to show willfulness (see Section 298 of Patent Act)
- Enhanced damages should have “careful application, to ensure that they only target cases of egregious misconduct”

Some Post-Halo Cases

Juries Hearing and Finding Willful Infringement

- *Polara Engineering, Inc. v Campbell Company*, in the Central District of California (June 30, 2016)
- *CH2O, Inc. v Meras Engineering, Inc.*, in the Central District of California (September 6, 2016)
- *Cellular Communications Equipment v. Apple, Inc.*, in the Eastern District of Texas (September 14, 2016)

Some Post-Halo Cases

Juries Hearing and Finding Willful Infringement

- *Core Wireless Licensing S.a.r.l. v. LG Electronics, Inc.*, in the Eastern District of Texas (September 16, 2016)
- *Johnstech Intl v JF Tech Behad*, in the Northern District of California (September 27, 2016)
- *Barry v. Medtronic, Inc.*, in the Eastern District of Texas (November 11, 2016)

Post Halo

Flow to get Enhanced Damages and Fees

Willful Infringement?



Enhancement (Up to Three Times)?



Exceptional Case?



Fee Award?

Post Halo

Considerations

- Willful infringement will go to the jury a lot more these days after the Halo swing
- Plaintiffs will use willfulness as leverage during settlement discussions
- Take steps to minimize willful infringement/enhancement risk
- Evaluate totality of the circumstances to define what steps to take
- Expect more internal company evaluations and outside counsel opinions to minimize risk

Discussion and Questions

Thank You!



John Johnson,
Principal, New York
212-765-5070
jjohnson@fr.com



Michael Autuoro,
Principal, New York
212-765-5070
autuoro@fr.com