

## Attorneys React To High Court's Patent Damages Ruling

*Law360, New York (June 13, 2016, 6:52 PM ET)* -- The U.S. Supreme Court Monday decided to discard the Federal Circuit's strict test for awarding enhanced damages in patent cases, finding that the circuit's high bar for patent owners was not justified under the Patent Act. Here, attorneys tell Law360 why the decision is significant.

### **Dan Bagatell, Perkins Coie LLP**

"From a practical perspective, [*Halo Electronics Inc. v. Pulse Electronics Inc.*] will make it much harder for accused infringers to win summary judgment taking enhanced damages and bad documents off the table. Under *Seagate*, district courts liberally granted summary judgment of no willfulness on grounds that a defense was objectively reasonable — even when the defense was developed in litigation. *Halo* will prevent that, and summary judgment on subjective intent will remain hard to get. The percentage of cases where district courts actually award enhanced damages may not go up much because the Supreme Court has set a high bar of 'egregious' behavior. But more plaintiffs will be able to tell their willfulness stories to juries, and as a practical matter those stories will affect liability and compensatory damages verdicts. And that will change settlement dynamics."

### **Terry L. Clark, Bass Berry & Sims PLC**

"For the first time in a while, this decision arguably enhances the value of U.S. patents by removing the rigid test to prove and sustain enhanced damages for egregious infringing conduct. The artificial constraints on a district court's discretion from *Seagate* are gone. All of this now makes enhanced damages a more powerful weapon for all patent owners, including non-practicing entities. The practical issue is predicting where the line will ultimately fall between typical infringement and egregious cases, as well as what an accused infringer should do — or must do — to be on the safe side of that line."

### **Case Collard, Dorsey & Whitney LLP**

"Today's unanimous Supreme Court decision in *Halo* provides patent holders with a new tool to fight the most egregious cases of patent infringement. The court vacated the previous, rigid *Seagate* test for enhancing damages in patent infringement cases and replaced it with a more flexible test that should be easier to meet, resulting in larger damages awards. This decision stands out in a trend of recent judicial decisions — like the reinvigorated 101 case law — and legislative actions — like the AIA — that have made it harder for patent holders to assert their rights. But the decision is not surprising. The Supreme Court recently rejected a rigid test for attorneys' fees awards in the *Octane Fitness* test, so rejection of a similarly rigid *Seagate* test is not surprising."

### **David K.S. Cornwell, Sterne Kessler Goldstein & Fox PLLC**

"35 U.S.C. Section 284 provides that a court 'may increase the damages up to three times the amount found or assessed' in a patent case. In 2007, the Federal Circuit set forth a two-step test to determine the circumstances in which a court could award enhanced damages under the patent statute. First, the

patent owner must show that the accused infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent. Second, the patent owner must demonstrate that the risk of infringement was either known or so obvious that it should have been known to the accused infringer. Today, the Supreme Court rejected that Federal Circuit test and held that the language of the statute contains no explicit limit or condition. This decision by the court allows for more flexibility and discretion to be exercised by a court in determining enhanced damages.”

**Craig J. Cox, Bell Nunnally & Martin LLP**

“Halo makes it much easier for patentees to receive enhanced damages for 'willful' infringement under Section 284. It lowers the burden of proof for patentees to establish defendant's reckless behavior, but more important from a practical standpoint, the court's decision eliminates defendant's ability to escape enhanced damages merely by raising a 'substantial question' as to validity or noninfringement of a patent at trial, even if defendant was unaware of the defense when it acted. Culpability is now measured against knowledge of defendant at the time the infringement occurred, putting an onus on companies to proactively pre-vet conduct for potential patent infringement.”

**James Day, Farella Braun & Martel LLP**

“The Supreme Court decision is significant and will have immediate impact on patent infringement cases. The most obvious impact will be on summary judgment proceedings. The Seagate test gave defendants a straightforward legal argument for summary judgment to exclude willfulness before trial. The new test will be fact-intensive, with the defendant trying to establish that a particular case is 'garden-variety' and the plaintiff trying to show that the alleged infringement is 'egregious.' Such fact-intensive arguments make summary judgment much more difficult. They can also lead to more extensive discovery into who knew what and when. Among other things, the new rule should give plaintiffs added leverage in settlement negotiations.”

**Russ Emerson, Haynes and Boone LLP**

“This decision was no surprise. The court continued its pattern of rejecting the Federal Circuit's bright-line tests, as in KSR, eBay, and Octane Fitness, and requiring deference to trial judges' discretion, as in Highmark. Doing away with the two-part test and lowering the evidentiary burden will make it easier for plaintiffs to get enhanced damages, while the higher appellate standard of review will make those awards easier to defend on appeal.”

**Benjamin E. Fuller, Montgomery McCracken Walker & Rhoads LLP**

“Today's unanimous decision in Halo expands judicial discretion for district courts to award enhanced damages, while rejecting the two-part test under Seagate. Noting that enhanced damages should be limited 'to egregious cases of misconduct beyond typical infringement,' the court now permits enhanced damages in the context of 'deliberate wrongdoing,' where an 'independent showing of objective recklessness' is unavailable or difficult to prove. In doing so, the court removes the unwarranted protections from enhanced damages often afforded to the 'wanton and malicious pirate.' By rejecting the stringent Seagate test, the opinion may increase the common practice of plaintiffs alleging willfulness. It may also increase the practice of receiving non-infringement or invalidity opinions prior to releasing products.”

**Michael Garvin, Vorys Sater Seymour and Pease LLP**

“The Supreme Court's decision in Halo was compelled by its 2014 decision in Octane Fitness, which reversed the Federal Circuit's prior standard for awarding attorneys' fees to the prevailing party. Justice [John] Roberts' opinion noted that enhanced damages awards have been reserved for 'egregious infringement behavior,' involving conduct described as 'wanton,' 'malicious' and 'characteristic of a pirate.' Given this strong language, today's decision does not clearly signal that enhanced damages will

be awarded more frequently in the future, but prevailing plaintiffs will certainly be more aggressive in seeking such awards.”

**Julianne Hartzell, Marshall Gerstein & Borun LLP**

“The Supreme Court’s decision in the Halo/[Stryker Corp. v. Zimmer Inc.] cases makes it easier for patent owners to recover enhanced damages for cases involving egregious misconduct by applying a more discretionary test for determining whether to award enhanced damages, a lower burden of proof, and a less rigorous appellate review standard. Although the court emphasized that there is still no affirmative requirement for an opinion of counsel, its statement that the accused infringer’s culpability is measured at the time of the challenged conduct may encourage companies developing new products to consult counsel early in the design process.”

**Michael Hawes, Baker Botts LLP**

“On balance, the Supreme Court may have relaxed the requirements for enhanced damages somewhat, but it was not a clear cut victory for patentees. While the Supreme Court removed one requirement for enhanced damages, known as the objective prong, and took away the ability for defendants to rely on defenses only developed for trial, it emphasized the high bar required for the other requirement, known as the subjective prong. For example, the Court described the subjective proof as 'egregious cases of culpable behavior' and 'characteristic of a pirate,' while lowering the evidentiary standard from clear and convincing to preponderance of the evidence in establishing such behavior by the defendant. Finally, the court also emphasized the ability of the district court judge to refuse enhancement even when 'egregious misconduct' has been shown.”

**Linda Kennedy, Butzel Long PC**

“Do not be alarmed that this decision is a free for all for Patent Trolls. It isn’t. The Halo Electronics decision provides a powerful fiscal disincentive to steal inventions. This is good for patentees and the value of their portfolios. Companies who trimmed their IP legal bills in the Seagate years by not commissioning non-infringement opinions should reconsider their risk analysis. Revisit product past product launches, if the facts so demand. Represent an accused infringer? As you investigate for potential exposure to enhanced damages by interviewing certain hand-selected witnesses, remember the company is your client. Some witnesses expect you to take them at their word. You cannot. Talk to others until you are satisfied a circle is complete. Analyze emails, lab notebooks and other documents of the relevant time period. As the saying goes: Trust but verify.”

**Steve Mitby, Ahmad Zavitsanos Anaipakos Alavi & Mensing PC**

“For nearly 200 years, enhanced damages for patent infringement have been within the trial court’s discretion. The Supreme Court today reaffirmed this principle while rejecting the outlier view that the Federal Circuit adopted in Seagate. Yet, as the court emphasized, discretion is not unlimited. Rather, discretion is constrained by 200 years of judicial decisions that have limited the occasions for enhanced damages. As Chief Justice Roberts wrote, quoting from his mentor Henry Friendly, 'through nearly two centuries of discretionary awards and review by appellate tribunals, "the channel of discretion ha[s] narrowed.'”

**John O’Quinn, Kirkland & Ellis LLP**

“This is not a surprising decision given the Supreme Court’s prior decisions in Octane Fitness and Highmark. Almost as soon as those decisions came down, parties and commentators observed that they were relevant to the question of willfulness and enhanced damages. Nonetheless, the Supreme Court continued to make clear that ‘enhanced damages are generally appropriate under [section] 284 only in egregious cases’ and should not be ‘awarded in garden-variety cases.’ What will be important to see is how the Federal Circuit applies the standard as revised by the Supreme Court, and whether focus turns

to close appellate scrutiny of enhancement factors instead of just the determination of willfulness itself.”

**Brian Pandya, Wiley Rein LLP**

“After a string of rulings unfavorable to patent owners, the Supreme Court handed patent owners a major victory today. The threat of willfulness had nearly been erased from patent litigation by recent Federal Circuit decisions. Although the Seagate test was dismissed by the Supreme Court as too rigid, it provided clear guidance in the area of enhanced damages. The Federal Circuit, district courts, and patent lawyers will have their hands full in the coming years sorting out what are the few situations that amount to willful infringement under the Supreme Court’s new, more flexible standard.”

**Alison Aubry Richards, Fitch Even Tabin & Flannery LLP**

“The Supreme Court’s Halo decision makes a finding of willfulness — and enhanced damages — a more realistic danger for accused infringers. It increases the importance of the defendant’s pre-litigation conduct — and the record of that conduct — and takes away the option to fix that record later by putting on a reasonable infringement defense at trial. It also increases the importance of the plaintiff’s choice of venue for the litigation. The willfulness determination is now entirely within the discretion of the district court, without any precise rule or formula, and is reviewed on appeal for only abuse of discretion. Yet another longstanding Federal Circuit standard has been overturned.”

**James Ryndak, Hinshaw & Culbertson LLP**

“The Supreme Court’s decision today is a big victory for the U.S. patent system. It removes the ‘Seagate stranglehold’ that the Federal Circuit announced in its 2007 Seagate decision that made enhanced damages extremely difficult to obtain. Today, the Supreme Court took a big step to help restore U.S. patent law to a strong, meaningful system that is supposed to encourage and reward innovation and to punish copyists and unscrupulous infringers. The Supreme Court rejected the Federal Circuit’s oppressive clear and convincing evidence standard and its unduly rigid, multiple high bar tests of ‘objective recklessness’ and risk of infringement that ‘was either known or so obvious that it should have been known to the accused infringer’ and finally the tripartite appellate review test requirements to obtain enhanced damages in patent infringement cases, finding them contrary to the patent statute and the court’s precedent since the 1830s. The court’s decision today essentially returns the enhanced damages law to the way it was for the past 180 years before the Federal Circuit put patent enhanced damages law in the Seagate stranglehold, similar in some ways to the court’s Octane Fitness decision, rejecting the Federal Circuit’s restrictions on attorneys’ fees awards in patent cases.”

**Adam Sanderson, Reese Gordon Marketos LLP**

“The Halo Electronics decision is a win for patent owners. Prior to this decision, patent owners had a very hard time satisfying the Federal Circuit’s three-part test for enhanced damages. As a result of today’s decision though, district courts will have more flexibility in awarding enhanced damages. This tilts the risk analysis against defendants. Before this decision, a finding of willful infringement was a long shot. As a result of today’s decision, trial courts will have more discretion, and thus we could begin to see more cases in which plaintiffs receive these types of enhanced awards.”

**Michael Sandonato, Fitzpatrick Cella Harper & Scinto**

"This decision was of course widely expected, since the Supreme Court’s decisions in Octane Fitness and Highmark abrogated a two-part test for recovering attorneys’ fees, that was considered to be analogous to the two-part tests for obtaining enhanced damages. The importance here is that the new framework puts the state of mind of the accused infringers front and center, by eliminating the ability to argue that enhanced damages are not appropriate based upon defenses that they did not actually consider. As Justice Roberts colorfully put it, infringers no longer can ‘escape any [Section] 284 comeuppance solely on the strength of his attorney’s ingenuity.’

**Peter Schechter, Osha Liang LLP**

“Some, though certainly not all, practitioners and clients have assumed that the combination of the Seagate 'objective recklessness' requirement and Congress's AIA enactment of 35 USC 298 ... effectively eliminated the need for, or perhaps even usefulness or wisdom of, obtaining patent clearance opinions before engaging in new potentially infringing commercial activities. The Supreme Court's elimination of the Federal Circuit's rigid Section 284 framework — especially the 'objective recklessness' requirement for enhanced damages — should dispel that notion for good, making clear that the existence or non-existence of a clearance opinion may be considered in the Section 284 analysis, whether infringement has been deemed willful or not. In deciding Halo Electronics as it did, the Supreme Court has likely instantly revived the moribund opinion-writing practices of many IP firms and groups.”

**Timothy Sendek, Lathrop & Gage LLP**

“The court follows a path that many predicted of dialing back a test formulated by the Federal Circuit, and paralleling its reasoning in the Octane Fitness case. Enhanced damages may be awarded more frequently, especially in light of the removal of the clear and convincing evidence standard and objective inquiry prong. The court is clearly intending enhanced damages to be a punitive rebuke for which judges have wide discretion to wield against the 'wanton and malicious pirate' with 'no doubts about its validity or any notion of a defense.' Early consultations counsel are likely to be ever more important to avoid enhanced damages threats.”

**Mike R. Turner, Neal Gerber & Eisenberg LLP**

“The Halo decision returns the question of willfulness to the district court where it belongs. It is the district court that hears the evidence, measures witness credibility, and can best determine when a case is of an 'egregious' nature. Seagate required district courts to ignore a defendant's egregious acts so long as the defendant's counsel was able to eventually conjure a reasonable defense. By unanimously setting the evidence threshold at a preponderance, and calling for review based on abuse of discretion, the Supreme Court allows courts to weigh the evidence free of the mental gymnastics Seagate and its progeny came to require.”

**Brett Williamson, O'Melveny & Myers LLP**

“After Seagate, juries in patent infringement cases rarely heard any facts relating to the defendant's motivations or machinations in connection with its allegedly infringing conduct because of the high bar erected by the objective recklessness prong. Now, even though judges will still make the ultimate decision whether to enhance damages, juries in virtually every case will hear evidence of deliberate indifference, attempts to avoid actual pre-suit knowledge of the patent, and contradictions between defense positions advanced at trial versus those outlined in opinion letters. As a result, motions to bifurcate willfulness issues are likely to again become the norm.”

**William Woodford, Fish & Richardson PC**

“The prior test for enhanced damages favored defendants because it was too rigid and allowed them to point to defenses they developed for trial, even if they didn't have those defenses when they infringed the patent. Halo returns the focus to the defendant's infringing conduct, and no longer insulates bad actors based on their ability to come up with defenses at trial. The decision also favors patent owners by lowering the burden of proof required for the court to enhance damages. It also makes it more difficult for the district court's decision to be overturned on appeal.”

--Editing by Emily Kokoll.