WILLFUL PATENT INFRINGEMENT AND ENHANCED DAMAGES AFTER *HALO ELECTRONICS, INC. V. PULSE ELECTRONICS, INC.*

by YEN-SHYANG TSENG

In June, the United States Supreme Court issued its opinion in *Halo Electronics, Inc. v. Pulse Electronics, Inc.*, 136 S.Ct. 1923 (2016). The Court held that enhanced damages under 35 U.S.C. § 284 did not require a patentee to prove the infringer acted with objective recklessness. The Court reached the same result just two years ago for attorney fee awards under 35 U.S.C. § 285 in *Octane Fitness, LLC v. ICON Health & Fitness Inc.*, 134 S.Ct. 1749 (2014). While the Court's analysis and decision in *Halo* was unsurprising given its previous decision in *Octane Fitness*, the practical effects could be monumental.

Attorney Fees and Enhanced Damages Before *Octane Fitness* and *Halo*

Section 285 of the Patent Act states, "The court in exceptional cases may award reasonable attorney fees to the prevailing party." Similarly, section 284 states that after finding for the claimant, "the court may increase the damages up to three times the amount found or assessed." 35 U.S.C. § 284. But for years, the Federal Circuit required patentees to show both subjective bad faith and objective baselessness for an award of attorney fees or enhanced damages.

In *Brooks Furniture Mfg., Inc. v. Dutailier Int'l, Inc.*, 393 F.3d 1378 (Fed. Cir. 2005), the Federal Circuit stated its test for attorney's fees under section 285: a case was "exceptional" and attorney fees may be awarded only if a district court found "some material inappropriate conduct related to the matter in litigation, such as willful infringement, fraud or inequitable conduct in procuring the patent, misconduct during litigation, vexatious or unjustified litigation." *Id.* at 1381. Absent such misconduct, the litigation must have both been "brought in subjective bad faith" *and* "objectively baseless." *Id.*

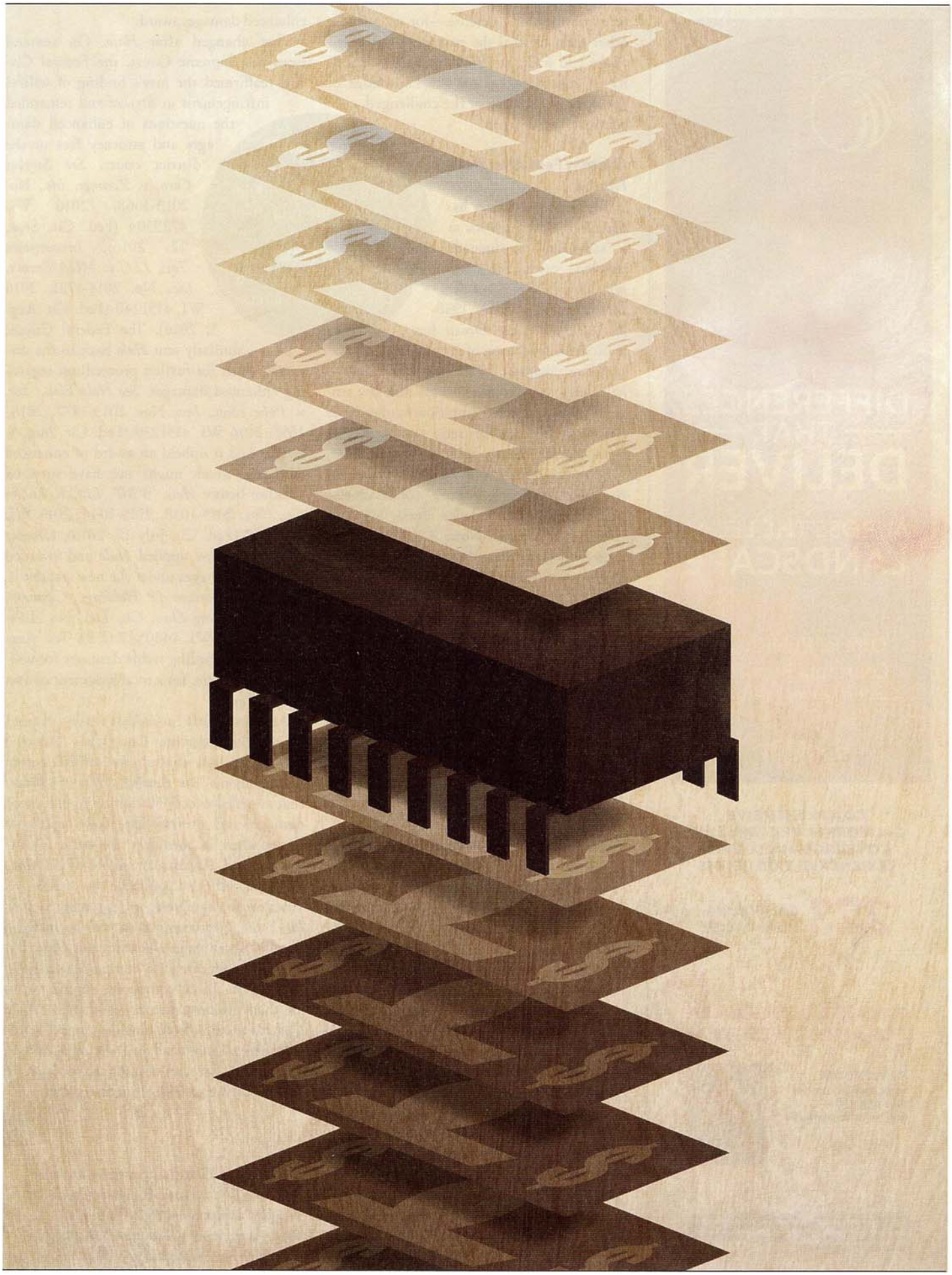
Similarly, in *In re Seagate Technology, LLC*, 497 F.3d 1360 (Fed. Cir. 2007), the Federal Circuit announced a two-part test for enhanced damages under section 284, requiring both "objective recklessness" and "subjective knowledge." For nearly a decade, the district courts have applied this two-part test and required a patentee 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," without regard to "[t]he state of mind of the accused infringer." *Id.* at 1371. If the accused infringer raises a substantial question as to the validity or non-infringement of the patent, courts will not find objective recklessness—even if the accused infringer was unaware of the defense when it acted.

> [T]he Supreme Court has changed the risk/reward analysis for willful patent infringement.

The Supreme Court's Opinions in *Octane Fitness* and *Halo*

Two years ago, the Supreme Court issued its opinion in *Octane Fitness*. The Court abrogated the *Brooks Furniture* test, finding that it "[is] unduly rigid," "impermissibly encumbers the statutory grant of discretion to the courts," and "superimposes an inflexible framework onto statutory text that is inherently flexible." *Id.* at 1755-56. Based on the plain language of section 285, the Court held that district courts should consider the totality of the circumstances and determine whether a case is "exceptional" on a case-by-case basis. *Id.* at 1756.

In October 2015, the Supreme Court granted certiorari in two cases, *Halo Electronics, Inc. v. Pulse Electronics, Inc.*, 769 F.3d 1371 (Fed. Cir. 2014) and *Stryker Corp. v. Zimmer, Inc.*, 782 F.3d 649 (Fed. Cir. 2015), to address section 284 and the *Seagate* test. The Court issued its opinion in June. Unsurprisingly, the Court changed the test lower courts apply to determine whether to award enhanced damages for patent infringement cases. It found that *Seagate*'s requirement of objective recklessness contravened the plain language of section 284: "Such a threshold 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." *Halo*, 136 S.Ct. at 1932. Instead, culpability is "measured against the knowledge of the actor at the time of the challenged conduct." *Id.* at 1933.

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Attorney Fees After *Octane Fitness*

The Supreme Court has described *Octane Fitness* as a "safeguard" to dissuade frivolous cases. *See Commil USA, LLC v. Cisco Sys., Inc.*, 135 S.Ct. 1920, 1930-31 (2015). *Octane Fitness* has shifted the landscape of fee awards in patent litigation. In the past two-and-a-half years, numerous attorneys and law students have conducted empirical studies of its effects on attorney fees requests and awards in the district courts. *See, e.g.*, Hannah Jiam, Note, *Fee-Shifting and Octane Fitness: An Empirical Approach Toward Understanding "Exceptional,"* 30 Berkeley Tech. L.J. 611 (2015); Darin Jones, Note, *A Shifting Landscape for Shifting Fees: Attorney-Fee Awards in Patent Suits After Octane and Highmark*, 90 Wash. L. Rev. 505 (2015). One article published on April 29, 2016—*Octane Fitness*'s two-year anniversary—found that compared to the years preceding the opinion, the number of attorney fees requests have increased by over 50% and attorney fees awards have increased by over 100%. *See* Nirav Desai & Lauren Johnson, *Octane Fitness, Two Years On: How It Has Impacted District Courts' Award of Attorneys' Fees in Patent Cases*, Legal Backgrounder (April 29, 2016).

Enhanced Damages After *Halo*

We should see a similar impact after *Halo* as to willful infringement. Before, companies that knew their products infringed or might infringe a patent could make a calculated risk/reward decision. Even after *Octane Fitness*, that gamble could be worth taking. A competitor could make millions of dollars copying a patentee's product, and if later caught red-handed, only had to give up lost profits—and maybe attorney fees. For example, in *Stryker*, a competitor responded to a new "pioneering" product by asking an independent contractor to make a copy of the product. The jury found willful infringement and awarded $70 million in damages, which reflected the profits the patentee lost because of the infringing product. The district court awarded enhanced damages and attorney fees, resulting in a total judgment of over $228 million. Under the *Seagate* test, however, the Federal Circuit vacated the enhanced damages award.

That changed after *Halo*. On remand from the Supreme Court, the Federal Circuit reaffirmed the jury's finding of willful infringement in *Stryker* and remanded the questions of enhanced damages and attorney fees to the district court. *See Stryker Corp. v. Zimmer, Inc.*, No. 2013-1668, 2016 WL 4729504 (Fed. Cir. Sept. 12, 2016); *Innovention Toys, LLC v. MGA Entm't, Inc.*, No. 2014-1731, 2016 WL 4151240 (Fed. Cir. Aug. 5, 2016). The Federal Circuit similarly sent *Halo* back to the district court for further proceedings regarding enhanced damages. *See Halo Elecs., Inc. v. Pulse Elecs., Inc.*, Nos. 2013-1472, 2013-1656, 2016 WL 4151239 (Fed. Cir. Aug. 5, 2016). And it upheld an award of enhanced damages, which might not have survived scrutiny before *Halo*. *WBIP, LLC v. Kohler Co.*, Nos. 2015-1038, 2015-1044, 2016 WL 3902668 (Fed. Cir. July 19, 2016). District courts also have applied *Halo* and awarded enhanced damages under the new standards. *See, e.g., Imperium IP Holdings (Cayman), Ltd. v. Samsung Elecs. Co., Ltd.*, No. 4:14-cv-371, 2016 WL 4480542 (E.D. Tex. Aug. 24, 2016) (awarding treble damages for willful infringement, for a total judgment of over $20 million).

As these early post-*Halo* cases demonstrate, the Supreme Court has changed the risk/reward analysis for willful patent infringement. The district court in *Stryker* that awarded over $150 million in enhanced damages and attorney fees likely will do so again when it considers the issue following remand. Awards of enhanced damages are "designed as a 'punitive' or 'vindictive' sanction for egregious infringement behavior," and fewer companies will be inclined to willfully infringe a patent after *Halo*. But its effects also extend to companies acting in good faith. Those companies should evaluate their options, such as whether to obtain a patent opinion from outside counsel before engaging in potentially infringing activities; despite their cost, an opinion may help avoid a later finding of willful infringement.

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