Insights: Alerts

U.S. Supreme Court Halo Decision Rejects Seagate's High Bar for Treble Damages

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In a unanimous decision rendered on June 13, 2016, the U.S. Supreme Court lowered the standard for the award of enhanced damages when patent infringement has been proven. As is its habit recently, the Supreme Court has taken away relatively clear guidelines put in place by the Federal Circuit Court of Appeals and left practitioners with far less guidance. District courts are given wide latitude to award treble damages in their discretion when there has been "egregious" infringement behavior, and appeals from such an award are to be reviewed only for an abuse of discretion. While not requiring attorney opinions to avoid willfulness, defendants with knowledge of potentially relevant patents face increased risk if they don't at least have attorney analysis and documented reasons supporting a good faith belief of non-infringement or invalidity.

***Seagate* guidance rejected**

Section 284 of the Patent Act allows a court to increase the award of damages for willful patent infringement up to three times the damages actually sustained. In 2007 the Federal Circuit, sitting *en banc*, established a burdensome two-part test for a finding of willfulness (and the award of treble damages), requiring (1) a showing "that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent" (objective recklessness) and (2) that the risk of infringement "was either known or so obvious that it should have been known to the accused infringer" (subjective intent). *In re Seagate Technologies, Inc.*, 497 F. 3d 1360, 1371 (Fed. Cir. 2007) (en banc). Moreover, Seagate required that both aspects of the test be shown by clear and convincing evidence. In practice this meant that if an accused infringer could mount any viable defense at trial – non-infringement or invalidity – then its actions were deemed not to be "objectively reckless" and enhanced damages would not be awarded. *Bard Peripheral Vascular, Inc. v. W.L. Gore & Assocs.*, 776 F. 3d 837, 844 (Fed. Cir. 2014).

The Supreme Court, in an opinion written by Chief Justice Roberts, rejected every aspect of the Federal Circuit's *Seagate* decision, concluding that the award of enhanced damages fell within the discretion of the trial court and that *Seagate*'s "inelastic" two-part test unduly constrained that discretion. The Court affirmatively rejected the notion that a reasonable defense asserted at trial protected an infringer from a claim of willfulness, stating that the defendant's "culpability" should be assessed at the time the alleged infringement occurred and should not be excused based upon "the strength of his [trial] attorney's ingenuity." Slip op. at 10. The Court affirmatively stated that "[t]he subjective willfulness of a patent infringer, intentional or knowing, may warrant enhanced damages, without regard to whether his infringement was objectively reckless." *Ibid.* In addition, the Court ruled that willfulness need not be proven by clear and convincing evidence. *Id. at 12.*

***Halo*'s guidance (or lack thereof)**

Instead, the Supreme Court held that increased damages can be awarded in the district court's discretion for egregious conduct, and any appeal from that decision will be based solely on abuse of discretion. Slip op. at 9-11, 12 – 13. While stating that the award of enhanced damages should be limited to "egregious cases of misconduct beyond typical infringement," slip op. at 15, the Court also suggested that "the full range of culpable behavior" could be punished. *Ibid at 11.* Finally, while acknowledging the explicit statutory provision that the lack of an opinion of counsel is not evidence of willfulness, 35 U.S.C. §298, the Court said that when exercising its discretion the trial court should "take into account the particular circumstances of each case in deciding whether to award damages and in what amount." Slip op. at 11. This vague formulation is sure to lead to fractious disputes in the District Courts about willfulness.

The Supreme Court actually decided two cases, the other being *Stryker v. Zimmer* which raised the same issues. The Court did not address the merits of either case, and simply remanded both for decisions consistent with the Court's ruling.

Practice tips

The Federal Circuit's ruling in *Seagate* in 2007 had eliminated disputes about willfulness from almost all patent infringement trials. As long as accused infringers had at least one colorable defense to assert at trial, District Courts had applied the "objectively reckless" test and eliminated claims of willfulness at the summary judgment stage. This, in turn, streamlined proof at trial and avoided the difficult debate about whether evidence of willfulness should be presented to the jury.

Halo returns infringement litigation to pre-Seagate practice. Unlike many recent decisions of both the Federal Circuit and the Supreme Court, *Halo* clearly benefits the plaintiff asserting its patents. The Court's decision in *Halo* makes it more likely that claims of willful infringement warranting enhanced damages will survive motions for summary judgment and be presented to the jury. That likelihood, in turn, improves plaintiff's settlement leverage before trial. Non-practicing entities will be encouraged by the *Halo* decision.

Finally, while *Halo* does not mean that companies necessarily need to return to the practice of obtaining formal legal opinions to address infringement allegations, it does mean companies should consider seeking legal advice and documenting reasons for believing there is no infringement or invalidity in real time. A short memo explaining what element of the claim is missing from the product, or identification of prior art that invalidates with a brief explanation, may suffice. Such a legal analysis should be considered if (1) the monetary demand is high or (2) the amount of time between notice and likely resolution is long. In many cases, the legal analysis will be straightforward and not require a large expense. If it is not straightforward, that fact suggests that it may be worth spending the time and effort required to obtain a formal legal opinion.

If you would like more information, do not hesitate to contact the authors or any other attorney at Kilpatrick Townsend.

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