

## The *Halo* Effect

By Eileen Hintz Rumfelt

**A**mong other things, willful infringement and enhanced damages should figure more prominently into litigation and settlement strategy than they may have in the recent past.

# Enhanced Damages After *Halo* and *Stryker*

Last summer, the United States Supreme Court eased the standard for awarding enhanced damages for willful patent infringement. *Halo Electronics, Inc. v. Pulse Electronics, Inc.*, 136 S. Ct. 1923 (2016). Initial commentary declared a

win for non-practicing entities and heralded a new era of large damages awards. Federal Circuit and district court rulings in the year since the decision provide instructive clues about whether *Halo* represents a true analytical sea change and how practitioners can protect their clients in the decision's wake. This topic was presented at the DRI Intellectual Property Litigation Seminar in May 2017.

### Willful Infringement Under *Seagate*

Section 284 of the U.S. Patent Act allows courts to enhance damages "up to three times the amount found or assessed." 35 U.S.C. §284. The act provides little other guidance to decide how and when that enhancement is to be made, or under which review standard. In 2007, the Federal Circuit fashioned a two-part test for determining when an infringer had acted willfully, and therefore, was entitled to

enhanced damages. *In re Seagate Technology, LLC*, 497 F.3d 1360 (Fed. Cir. 2007) (en banc).

First, the plaintiff must show that "the infringer acted despite an objectively high likelihood that its actions constituted infringement" (the "objective prong"). *Halo Electronics, Inc.*, 136 S. Ct. at 1930. Second, the patentee must show that the risk of infringement was "either known or should have been known by the accused infringer" (the "subjective prong"). *Id.* If both prongs were met, a court could exercise its discretion to determine an appropriate enhanced damages award. *Id.* Both prongs of the *Seagate* test had to be established by clear and convincing evidence. *Id.* Under *Seagate*, evidence of a reasonable defense was sufficient to establish the objective prong, even if that defense was not necessarily known to the accused infringer at the time that it acted. *Id.* at 1933. A reasonable



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claim-construction position, some other non-infringement position, or an invalidity defense was typically sufficient. An award of enhanced damages under *Seagate* was subject to a three-part appellate review. *Id.* The objective prong was reviewed de novo; the subjective prong was reviewed for substantial evidence; the ultimate decision was reviewed for abuse of discretion. *Id.*

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When *Seagate* was decided, commentators expected that it would lead to fewer willfulness findings and lower enhanced damages awards. A 2012 empirical study of decisions after *Seagate* concluded, however, that willful infringement was found in only 10 percent fewer cases after *Seagate*. Christopher B. Seaman, *Willful Patent Infringement and Enhanced Damages After In re Seagate: An Empirical Study*, 97 Iowa Law Review 417 (2012). Interestingly, the study found that the biggest predictor of a non-willfulness finding was the existence of a “significant” or “legitimate” defense to infringement. *Id.* Other factors, such as trial bifurcation, opinions of counsel, or evidence of design around attempts, had no statistically significant effect. *Id.*

### The Halo Decision

In 2014, the Supreme Court similarly relaxed the standard for attorney fee awards in patent cases, in retrospect, a harbinger of the *Halo* decision. *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749 (2014). As with enhanced damages under *Seagate*, the test for whether a case was

sufficiently “exceptional” to justify attorney’s fees involved a review of both objective baselessness and subjective bad faith. *Halo Electronics, Inc.*, 136 S. Ct. at 1932. In *Octane*, the Supreme Court rejected the test as “unduly rigid” and ruled that district courts must analyze the totality of the circumstances in determining whether a case is “exceptional.” *Id.*

In light of the simplified and discretionary test that it established under *Octane*, a ruling on the similarly strict willfulness test arguably was inevitable. The Supreme Court found its opportunity with *Halo* and *Stryker*. The Court’s decision resolved two Federal Circuit rulings. In the first, *Halo Electronics, Inc. v. Pulse Electronics Corporation*, 769 F.3d 1371 (Fed. Cir. 2014), the jury below had found a high probability of willfulness. The district court declined to enhance damages because it found that the alleged infringer had not been objectively reckless. The Federal Circuit affirmed the lower court’s decision, agreeing that the defendant had presented reasonable defenses. In the second, *Stryker Sales Corporation v. Zimmer Inc.*, 782 F.3d 649 (Fed. Cir. 2015), the jury had found willful infringement, and the district court trebled the total damages award. The Federal Circuit reversed the treble damages award because the defendant had presented reasonable defenses at trial.

Chief Justice Roberts authored the unanimous decision of the Court. The opinion first established a careful groundwork for the Court’s decision by tracing the historical underpinnings of enhanced damages. *Id.* at 1928–30. Although “[e]nhanced damages are as old as U.S. patent law,” so, too, is the practice of reserving enhanced damages for “vindictive” or “punitive” effect. *Id.* at 1928, 1929. Recognizing that *Seagate* reflects this historical role for enhanced damages, the Court held that it was nonetheless “unduly rigid” and can result in insulating even the worst patent infringers. *Id.* at 1932–33. Under *Seagate*, “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.” *Id.* at 1933. The Court thus rejected the “inelastic constraints” of the *Seagate* test, while emphasizing the importance of following the historic view of enhanced

damages as a punishment “reserved for egregious cases typified by willful misconduct.” *Id.* at 1934, 1935.

As for the review standards, the Court abandoned the heightened “clear and convincing evidence” standard in favor of a “preponderance of the evidence” standard. *Id.* at 1934. Additionally, having rejected the *Seagate* two-prong analysis, the Court also rejected the associated tripartite standard of review in favor of a single “abuse of discretion” standard. *Id.*

Justice Breyer wrote a concurring opinion, joined by Justices Kennedy and Alito, to emphasize a few key points. First, Justice Breyer clarified that enhanced damages should not be awarded when an alleged infringer knew of the patent and *nothing more*. *Id.* at 1936. Lower courts are to exercise their discretion in light of the particular circumstances of each case, and “[i]t is ‘circumstance’ that transforms simple behavior into... egregious behavior, and that makes all the difference.” *Id.* Second, the concurring opinion emphasized that opinions of counsel are not always necessary to avoid enhanced damages. *Id.* Instead, for innovators “getting a small business up and running,” the analysis of an engineer or technician may be sufficient. *Id.* Justice Breyer likely was attempting to discourage a renewed focus on opinions of counsel and the related thorny privilege issues, which, in part, had prompted the *Seagate* test in the first place. See Lawrence B. Friedman *et al.*, *The Supreme Court Relaxes Standard for Enhanced Damages in Patent Infringement Suits*, 28 Intellectual Property & Technology Law Journal 3, 5 (Sept. 2016). Finally, the concurring opinion reiterated that enhanced damages should not be used to compensate patentees, but instead, they should continue to play a limited, punitive role. *Id.* at 1937. Here, Justice Breyer responded directly to concerns that non-practicing entities will use the fear of treble damages to extort high early settlements. *Id.*

### Federal Circuit Interpretation

Both *Halo* and *Stryker* were remanded to the Federal Circuit. The Federal Circuit ruled on *Halo* in August 2016, remanding the case to the district court to reconsider its previous decision not to enhance damages under the *Seagate* test. *Halo Electronics, Inc. v. Pulse Electronics, Inc.*, 831 F.3d 1369,



1373 (Fed. Cir. 2016). The defendant had not challenged on appeal the jury's finding that the defendant was subjectively unreasonable (and therefore had acted willfully). *Id.* at 1381. Accordingly, the Federal Circuit remanded "for the district court to exercise its discretion and to decide whether, taking into consideration the jury's unchallenged subjective willfulness finding as one factor in its analysis, an enhancement of the damages award is warranted." *Id.*

The Federal Circuit also instructed the lower court specifically to consider the defendant's knowledge of the patent at the time of the infringement. *Id.* As of this writing, the case remained before the district court on remand. The defendant now has relied heavily on an advice of counsel defense that was not offered at trial because of concerns about attorney-client privilege waivers. Unsurprisingly, the plaintiff has objected to this defense as untimely.

Likewise, in *Stryker*, the Federal Circuit affirmed the jury's willfulness finding because the defendant did not appeal the jury's finding of subjective willfulness under *Seagate*. *Stryker Corp. v. Zimmer, Inc.*, 837 F.3d 1268, 1271 (Fed. Cir. 2016). As the court reasoned, because subjective reasonableness is now enough under *Halo* (and under a lower evidentiary standard), the jury's finding remains supportable under the new standard. *Id.* The Federal Circuit, however, vacated the district court's treble damages award and remanded for a new ruling, reiterating that enhancing damages remains within the court's discretion. *Id.* As of this writing, the *Stryker* decision remains in briefing on a renewed motion for treble damages.

After these two initial decisions, the Federal Circuit has provided additional guidance on the analytical framework that it intends to follow under *Halo*. Ruling on the initial spate of cases presented for reconsideration in light of the Supreme Court's ruling, the Federal Circuit first made clear that the willfulness inquiry remains one for a jury, after which a district court completes a damages enhancement inquiry, which falls within its discretion. *See, e.g., Innovention Toys, LLC v. MGA Entertainment, Inc.*, Civ. No. 2014-1731, 2016 WL 4151240, at \*2 (Fed. Cir. Aug. 5, 2016). A finding of willfulness also does not necessarily mandate an award of enhanced damages—whether to enhance damages,

and how much, remains within the court's discretion. *Presidio Components, Inc. v. Am. Technical Ceramics Corp.*, Case No. 14-cv-02061, 2016 WL 4377096, at \*20 (S.D. Cal. Aug. 17, 2016) (citing *WBIP v. Kohler Co.*, 829 F.3d 1317 (Fed. Cir. 2016)). In fact, Judge Rakoff of the U.S. District Court for Southern District of New York has ruled that absent a showing of willfulness by a preponderance of the evidence, the court lacks jurisdiction to determine enhanced damages. *Adrea, LLC v. Barnes & Noble, Inc.*, \_\_\_ F. Supp. 3d \_\_\_, 2017 WL 44954 (S.D.N.Y. Jan. 3, 2017).

Second, the Federal Circuit has established that in exercising that discretion, "egregious misconduct" is the new touchstone for whether a court should award enhanced damages. *See, e.g., Alfred E. Mann Foundation v. Cochlear Corp.*, 841 F.3d 1334, 1346 (Fed. Cir. 2016); *WesternGeco LLC v. ION Geophysical Corp.*, 837 F.3d 1358, 1364 (Fed. Cir. 2016).

Third, the Federal Circuit has emphasized that the objective reasonableness of an accused infringer's litigation position remains a relevant factor for courts considering the totality of the circumstances. *WesternGeco LLC*, 837 F.3d at 1363. However, the critical timing for purposes of a reasonableness inquiry is the time when the challenged conduct took place, and "[p]roof of an objectively reasonable litigation-inspired defense to infringement is no longer a defense to willful infringement." *WBIP*, 829 F.3d at 1341.

Finally, knowledge of the patent remains a prerequisite to enhanced damages, but alone, it is insufficient to warrant enhanced damages. *See id.*

### Emerging Litigation Implications

There is no denying the significance of the *Halo* decision for patent defendants. The Court removed a significant defense in the objective prong, and relaxed the evidentiary and appellate standards of review. Although it is too soon for robust empirical analysis of *Halo*'s effect, we do have some empirical studies of attorney fee awards since *Octane*. One April 2016 study found that the number of attorney fee requests have increased by more than 50 percent since *Octane*, with awards increasing by more than 100 percent. Yen-Shyang Tseng, *Willful Patent Infringement and Enhanced*

*Damages After Halo Electronics Inc. v. Pulse Electronics, Inc.*, 58 DEC Orange County Law 38, 40 (Dec. 2016). Given the similar change in the new tests and evidentiary standards, *Octane* may be a good harbinger of what is to come under *Halo*.

District court rulings also provide some practical direction about how the willfulness and enhanced damages issues will

## Relying on the Federal

### Circuit's interpretation

discussed above, district courts have dismissed willful infringement claims or required amendments based on the failure expressly to plead knowledge of the patent or the "element of egregiousness."

feature in future patent litigation. Several district courts since *Halo* have dealt with motions to dismiss by defendants claiming that a given complaint does not survive *Twombly/Iqbal* scrutiny as the complaint pertains to willful infringement. Relying on the Federal Circuit's interpretation discussed above, district courts have dismissed willful infringement claims or required amendments based on the failure expressly to plead knowledge of the patent or the "element of egregiousness." *Continental Circuits LLC v. Intel Corporation*, No. CV16-20206, 2017 WL 679116 (D. Ariz. Feb. 21, 2017); *see also Nanosys, Inc. v. QD Vision, Inc.*, Case No. 16-cv-01957, 2016 WL 4943006, at \*8 (N.D. Cal. Sept. 16, 2016) (granting leave to amend to bolster allegations beyond mere knowledge of patent); *Princeton Digital Image Corp. v. Ubisoft Entertainment SA*, Civil Action No. 13-355, 2016 WL 6594076 (D. Del. Nov. 4, 2016) (dismissing willful infringement claim for



failure to allege knowledge of patent before service of complaint); *CG Technology Dev., LLC v. Zynga, Inc.*, Civ. Action No. 2:16-cv-00859, 2017 WL 662489, at \*4 (dismissing willful infringement claim based on mere conclusory allegations of knowledge and egregiousness).

Searching for a framework within which to apply their discretion to award enhanced

\*7 (W.D.N.C. Dec. 28, 2016). One court explained, “[w]hile the *Read* factors remain helpful to the Court’s execution of its discretion, an analysis focused on ‘egregious infringement behavior’ is the touchstone for determining an award of enhanced damages rather than a more rigid, mechanical assessment.” *Imperium IP Holdings (Cayman), Ltd. v. Samsung*, \_\_\_ F. Supp. 3d \_\_\_, 2016 WL 4480542 (E.D. Tex. Aug. 24, 2016).

In weighing the totality of the circumstances, district courts also have shown some willingness to consider meritorious defenses at trial, despite the Supreme Court’s clear direction that culpability should be weighed at the time of the infringing conduct. *Presidio Components, Inc.*, 2016 WL4377096, at \*21. (“Moreover, the Court notes that [the defendant’s] invalidity defenses at trial, although ultimately rejected by the Court, was not meritless.”). For example, in ruling on a motion to vacate its grant of summary judgment of no willful infringement, the U.S. District Court for the District of Delaware highlighted that invalidity had been a hotly contested issue at trial as support for its renewed grant of summary judgment. *Greatbatch Ltd.*, 2016 WL 7217625, at \*4.

Another interesting question posed to the district courts has been whether a willful infringement-asserting plaintiff may obtain enhanced damages for post-litigation conduct when the plaintiff did not move for a preliminary injunction. *Simplivity Corp. v. Springpath, Inc.*, Civil Action No. 4:15-13345, 2016 WL 5388951, at \*16 (D. Mass. July 15, 2016). *Halo* did not address the issue, and the answer under *Seagate* had been a clear “no.” See *id.*

Thus far, the courts addressing this issue are split. The U.S. District Court for the District of Massachusetts has ruled that this bright-line rule no longer applies, under a theory that the *Halo* court rejected any rigid, formulaic rule set forth by *Seagate*. See *id.* at \*17. The U.S. District Court for the Eastern District of Texas agrees that a preliminary injunction request is not required to state a claim for post-suit willfulness. *Blitzsafe Texas, LLC v. Volkswagen Group of Am., Inc.*, Case No. 2:15-cv-1274, 2016 WL 4778699, at \*7 (E.D.T.X. Aug. 19, 2016).

The U.S. District Court for the Eastern District of Pennsylvania has, in contrast, held that “[a]bsent evidence of pre-filing

willful infringement, a patentee who does not seek a preliminary injunction may not base a claim for willful infringement solely on the infringer’s post-filing conduct.” *Dorman Prods., Inc. v. Paccar, Inc.*, 201 F. Supp. 3d 663, 681 (E.D. Penn. 2016). Likewise, the U.S. District Court for the District of Nevada agrees that if post-complaint conduct is reckless, a plaintiff must ask for a preliminary injunction. *CG Tech. Dev., LLC v. FanDuel, Inc.*, No. 2:16-CV-00801, 2017 WL 58572, at \*6 (D. Nev. Jan. 4, 2017) (“If Plaintiffs believe Defendant’s post-FAC conduct with respect to the ‘058, ‘518, and ‘952 Patents has been reckless, the proper remedy is to ask the Court for a preliminary injunction, not to simply seek enhanced damages....”).

## Concluding Observations

From a defense standpoint, the issues of willful infringement and enhanced damages should figure more prominently into litigation and settlement strategy than they may have in the recent past. Defense counsel should initially consider motions to dismiss if a plaintiff fails to rely on the new *Halo* touchstones to assert a claim, and defense counsel should attack complaints that assert nothing more than mere knowledge of the patent.

In discovery, counsel should pay close attention to and develop pre-litigation conduct that refutes willfulness, focusing on knowledge and investigation (by attorneys or others) of potential infringement.

Defense counsel should caution their clients that the willfulness inquiry remains one for the jury (under a lower burden of proof), and the enhanced damages inquiry is highly fact intensive and subject to great judicial discretion. As a result, summary judgment may be less certain than in the past, and the risk of big awards in trials much riskier.

If *Octane Fitness* is a harbinger of *Halo*’s future, defense attorneys should consider that time has shown that the *Octane Fitness* decision has resulted in more frequent attorney fee requests and generally higher awards. Ryan Davis, *Fee Awards Loom Large in Patent Law 3 Years After Octane*, Law360 (Apr. 27, 2017). But only time will tell how *Halo* is ultimately applied and whether it substantially moves the needle on enhanced damages awards.



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damages, several courts also have turned to the factors identified in *Read Corp. v. Portec, Inc.*, 970 F.2d 816, 827 (Fed. Cir. 1992), to guide their analysis. See, e.g., *Radware, Ltd. v. F5 Networks, Inc.*, Case No. 5:13-cv-02024, 2016 WL 4427490, at \*5 (N.D. Cal. Aug. 22, 2016). The *Read* factors include (1) whether the infringer deliberately copied; (2) whether the infringer investigated the scope of the patent and formed a good-faith belief on infringement; (3) how the infringer behaved as a party to the litigation; (4) the defendant’s size and financial condition; (5) the closeness of the case; (6) the duration of the conduct; (7) remedial actions; (8) the defendant’s motivation; and (9) attempts to conceal the misconduct. *Greatbatch Ltd. v. AVX Corp.*, C.A. No. 13-723, 2016 WL 7217625, at \*4 n.8 (D. Del. Dec. 13, 2016).

Other courts have expressed some reservation about applying the *Read* factors, expressing some concern about any methodology that appears to create a precise rule or formula. *Sociedad Espanola de Electro-medicina y Calidad, SA v. Blue Ridge X-Ray Co., Inc.*, Civil Case No. 1:10-cv-00159, at