

JUNE 2016

## SUPREME COURT SUBSTANTIALLY LOWERS STANDARD FOR PROVING ENHANCED DAMAGES FOR PATENT INFRINGEMENT

In *Halo Electronics, Inc. v. Pulse Electronics, Inc.*, the Supreme Court issued a long-awaited opinion dramatically altering the standard Federal Courts use for determining whether to increase patent infringement damages under 35 U.S.C. § 284, which permits a Court to “increase the damages up to three times the amount found or assessed.” The focus is to be on the subjective conduct of the accused infringer, not an after-the-fact litigation-based objective view of the merits of the defense. A plaintiff can prove its entitlement to enhanced damages by a preponderance, instead of by clear and convincing evidence. The decision will impact alleged infringers’ pre-suit considerations to memorialize their good faith defenses to a patent, possibly encouraging more patent opinions in many situations.

### What the Court Decided in *Halo*

The Court held that the Federal Circuit’s two-part test for enhancing damages, announced in *In re Seagate Technology, LLC*, was inconsistent with the mandates of Section 284. Under *Seagate*, a trial court could only enhance damages for willful infringement upon finding “clear and convincing proof” of:

- (1) Objective recklessness, i.e. “the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent”; and
- (2) Subjective knowledge, i.e., that such a risk of infringement “was either known or so obvious that it should have been known to the accused infringer.”

This provided alleged infringers with two “outs” from a finding of conduct meriting enhanced damages, which in the case of the objective prong, allowed a later developed litigation position on liability to serve as a defense to enhanced damages. The Court found this test unduly rigid. Indeed, the objective prong “can ... insulat[e] some of the worst patent infringers” based on a defense found during the litigation “even if [they] did not act on the basis of the defense or w[ere] even aware of it” prior to the litigation.

The decision may be viewed as the second of a pair with the 2014 decision on *Octane Fitness, LLC v. ICON Health & Fitness, Inc.* In that case, the Court found that the neighboring patent section regarding attorney fee shifting for exceptional cases could be met based on subjective findings without an independent showing of objective recklessness.

Separately, the Court held in *Halo* that proof need only be met by a preponderance, consistent with patent infringement itself, instead of the clear and convincing burden reserved for proving patent invalidity.

The word “may” in the patent statute “clearly connotes discretion,” the Court held. It further declined to provide a precise rule or formula for determining whether to enhance damages. Rather, a decision to enhance damages should:

- Be guided by sound legal principles.

• *continued*

### CONTACT THE AUTHORS

#### Howard J. Susser

Chair, Intellectual Property Litigation  
617.345.3738 | [hsusser@burnslev.com](mailto:hsusser@burnslev.com)

#### Eric G. J. Kaviar

Associate, Intellectual Property Litigation  
617.345.3217 | [ekaviar@burnslev.com](mailto:ekaviar@burnslev.com)

### INTELLECTUAL PROPERTY LITIGATION

Whether representing large companies or individual inventors, we skillfully litigate in a highly efficient and cost-effective manner to defend the intellectual property rights in question.

We protect and enforce intellectual property at administrative agencies, including the United States Patent & Trademark Office, and represent clients in patent interferences, patent reexaminations, patent oppositions, trademark oppositions and cancellation proceedings. We also work with and direct counsel in international intellectual property tribunals throughout the world.

We are experienced in alternative dispute resolution, such as arbitration and mediation, which arise in nearly every dispute and often by court order. We understand that an amicable business resolution may be the best solution for even the most aggrieved client, and maintain the client’s best interests as paramount in every dispute.

For more information about our **Intellectual Property Litigation** group, visit [burnslev.com](http://burnslev.com).

- Be exercised in light of the considerations underlying the grant of that discretion.
- Take into account the particular circumstances of each case.

While the Court did not provide any precise formula for determining whether it is appropriate to enhance damages, it did provide the following guidance and observations.

- While trial “courts enjoy considerable discretion in deciding whether to award enhanced damages, and in what amount[,]” “the channel of discretion ha[s] narrowed” through “nearly two centuries” of litigation such that enhanced “damages are generally reserved for egregious cases of culpable behavior.”
- “[C]onduct 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.”
- “[C]ulpability is generally measured against the knowledge of the actor at the time of the challenged conduct.”
- “[N]one of this is to say that enhanced damages must follow a finding of egregious conduct.”
- Enhanced damages “are not to be meted out in a typical infringement case.”

Three Justices filed a concurring opinion (Justices Breyer, Kennedy and Alito) to elaborate on some of the practical implications of the majority decision. Particularly, they dispelled the idea that this standard change would “mean that a court may award enhanced damages simply because the evidence shows that the infringer knew about the patent and nothing more.”

These Justices pondered a variety of situations facing alleged infringers, including appropriate responses to so-called “trolls” that write thousands of letters demanding license fees. They were particularly concerned with the potential implication that with the emphasis on subjective evidence, the majority opinion could be viewed as hearkening back to the time where patent opinions of counsel of non-infringement or invalidity were essentially required when a party became aware of a patent threat. These Justices note that the 2011 America Invents Act added a section preventing patent owners from arguing willful infringement based on an alleged infringer’s failure to obtain or use an

opinion of counsel, 35 USC § 298, and that the Court’s majority opinion is not intended to weaken that provision.

### Things to Keep in Mind Following *Halo*

#### Plaintiffs

Carefully investigate through discovery whether alleged infringers have committed what could be considered “egregious” conduct associated with their infringement. This conduct may include more than just “willful” infringement. Bear in mind that enhanced damages may be obtained based on a preponderance of the evidence. Given the level of culpable conduct necessary even under the lowered standard, however, the prospect of enhanced damages should seldom guide a decision to litigate.

#### Defendants and Businesses That Might Be Sued

No longer able to rely on a traditional lack of “objective recklessness” defense, parties learning of patents that could be asserted against them should consider whether to take steps to reach a good faith position, which in many cases might be memorialized in writing.

Though a patent opinion of counsel is strictly not required, talking to patent counsel about a potential threat is an advisable first step to determine what level of response is suitable. You may want to even discuss with counsel whether a good faith response to a patent threat may be based on a non-lawyer’s technical analysis from the company reviewing the patent.

Regardless, the calculus for an alleged infringer surely has changed in favor of doing more to memorialize one’s good faith. Before this decision, parties could eschew expensive and/or time consuming analyses of third party patents and roll-the-dice on the likely prospect that if sued, patent litigators would develop strong enough defenses to meet the objective prong. Now, the focus on subjective evidence at the time of the threat may mean, especially for more well-heeled companies facing potentially large damages, obtaining more formal legal opinions.

Defendants should also consider whether any “objective” evidence that a patent is not infringed, invalid, or otherwise unenforceable fits within pre-Seagate defenses to claims for enhanced damages. This may particularly be important if the plaintiff is pursuing a “should have known” theory of culpability.

This communication provides general information and does not constitute legal advice. Attorney Advertising. Prior results do not guarantee a similar outcome. © 2016 Burns & Levinson LLP. All rights reserved.

#### ABOUT BURNS & LEVINSON:

Burns & Levinson is a Boston-based, full service law firm with more than 125 attorneys in Massachusetts, New York and Rhode Island. The firm has grown steadily and strategically throughout the years, and has become a premier law firm with regional, national and international clientele. Core areas of practice are Business Law, Business Litigation, Intellectual Property, Private Client Legal Services and Real Estate.

For more information, visit [burnslev.com](http://burnslev.com).

MASSACHUSETTS | NEW YORK | RHODE ISLAND

617.345.3000

**BURNS & LEVINSON** LLP