

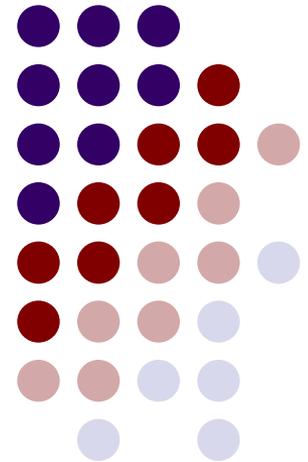


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Stewart
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Birch LLP

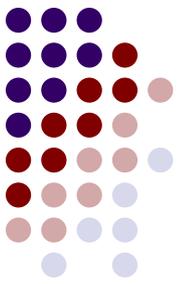
The Supreme Court decision in *Halo v. Pulse Electronics* changes treble damage landscape

Halo Elecs., Inc. v. Pulse Elecs., Inc.,
136 S. Ct. 1923, 195 L. Ed. 2d 278 (2016),

Shawn Hamidinia
October 19, 2016



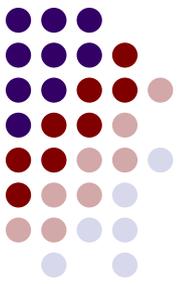
35 U.S.C §284 of the 1952 Patent Act



Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court.

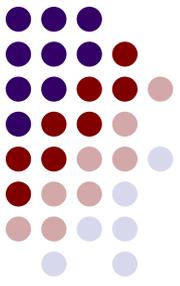
When the damages are not found by a jury, the court shall assess them. **In either event the court may increase the damages up to three times the amount found or assessed.** Increased damages under this paragraph shall not apply to provisional rights under section 154(d) of this title.

The court may receive expert testimony as an aid to the determination of damages or of what royalty would be reasonable under the circumstances.



Recent History of Willful Infringement

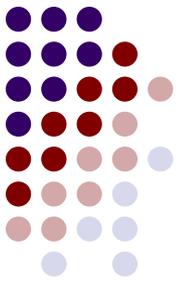
- The plain meaning of §284 provides discretion to the district court to assess up to treble damages. Pursuant to §284, the court may receive expert testimony as an aid to the determination of damages or of what royalty would be reasonable under the circumstances.
- Prior to the Federal Circuit's ruling in *In re Seagate Technology, LLC*, 497 F.3d 1360, 83 U.S.P.Q.2d 1865 (Fed. Cir. 2007), enhanced damage awards were imposed by district courts for willful or bad-faith infringement to punish the infringer based on discretionary equitable principles.



Recent History of Willful Infringement

- Before *Seagate's* two part test, the district court considered the factors in *Read Corp. v. Portec, Inc.*, 970 F.2d 816 (Fed. Cir. 1992) (“the Read factors”).
 - (1) whether the infringer deliberately copied the ideas or design of another;
 - (2) whether the infringer, when he knew of the other's patent protection, investigated the scope of the patent and formed a good-faith belief that it was invalid or that it was not infringed;
 - (3) the infringer's behavior as a party to the litigation;
 - (4) the defendant's size and financial condition;
 - (5) closeness of the case;
 - (6) the duration of the defendant's misconduct;
 - (7) remedial action by the defendant;
 - (8) the defendant's motivation for harm; and
 - (9) whether the defendant attempted to conceal the misconduct.

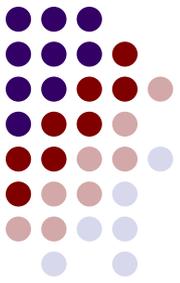
Seagate Two Part Test



A patent owner must show:

- (1) by clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent, and
- (2) that the risk of infringement was either known or so obvious that it should have been known to the accused infringer.

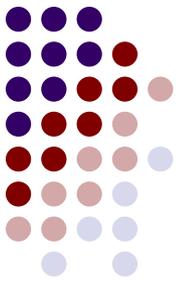
The District Court could proceed to exercising its discretion in awarding enhanced damages only when both prongs of the test were satisfied.



Trifurcated Appellate Review

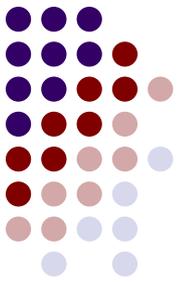
- Under *Seagate*, an award of enhanced damages was subject to trifurcated appellate review that often affirmed the district court's finding in favor of non-willfulness.
 - The first step of *Seagate*—objective recklessness—was reviewed *de novo*.
- The second step of *Seagate*—subjective knowledge—was reviewed under a substantial evidence standard of review; and
- The ultimate decision—whether to award enhanced damages—was reviewed for abuse of discretion.

Factual Background

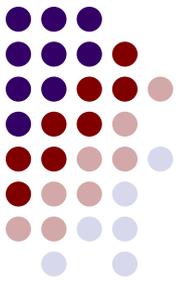


- Petitioner Halo Electronics alleges that Pulse Electronics infringed its patents for electronic packages containing transformers designed to be mounted to the surface of circuit boards.
- In 2002, Halo sent Pulse two letters offering to license Halo's patents.
- After one of its engineers concluded that Halo's patents were invalid, Pulse continued to sell the allegedly infringing products.

Procedural History



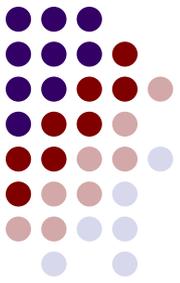
- In 2007, Halo sued Pulse. **The jury found that Pulse had infringed Halo’s patents, and that there was a high probability it had done so willfully.**
- In 2012, the district court awards 1.5 million in damages.
- However, the district court decline to award enhanced damages under §284 because Pulse had at trial presented a defense that was not “objectively baseless.”



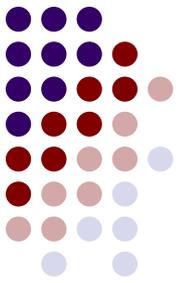
Procedural History Cont...

- In 2013, Halo appeals to the Federal Circuit.
- In 2014, Federal Circuit Affirmed.

Halo's Arguments

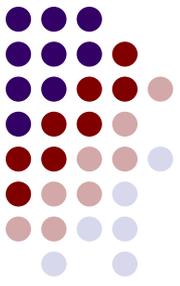


- Pulse did not have an invalidity defense at the time of selling the accused products. The defense was created after the law suit was filed in 2007.
- Pulse's engineer only made a cursory review of the patent at issue.



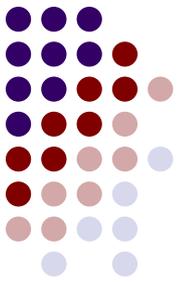
Pulse's Arguments

- The district court properly determined obviousness defense to evaluate objective recklessness.
- The letters from Halo in 2002 did not allege infringement.
- The defense at trial raised a substantial question of invalidity.



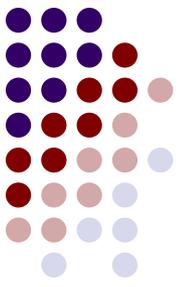
Federal Circuit Holding

- Panel agreed with the district court that Pulse's obviousness defense was not objectively unreasonable.
- Thus, second part of the *Seagate* test was not addressed because the first step was not satisfied.



Procedural History Cont...

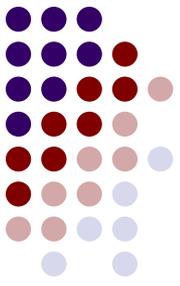
- In March 2015, Petition for panel hearing and rehearing *en banc* denied.
- In June 2015, Petition for Writ of Certiorari filed.
- In October 2015, Petition granted limited to Question 1 in *Halo* case.



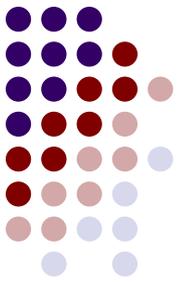
Consolidated Cases

- The Supreme Court consolidated *Halo* with *Stryker Corporation v. Zimmer, Inc.* case.
- Petitioner Stryker sued Zimmer for infringing its patents on a pulsed lavage device (combination of spray gun and suction tube) used to clean tissue during surgery.
- The jury found that Zimmer had willfully infringed and awarded \$70 million in lost profits.
- The district court then trebled the total sum to over \$228 million under §284.
- Federal Circuit affirmed judgment of infringement, but vacated treble damages because Zimmer had asserted “reasonable defenses” at trial.

Question before the Supreme Court

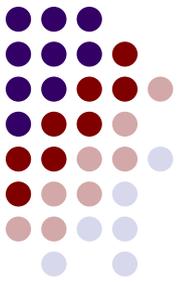


Whether the Federal Circuit erred by applying a rigid, two-part test for enhancing patent infringement damages under 35 U.S.C. §284, that is the same as the rigid, two-part test this Court rejected last term in *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749 (2014) for imposing attorney fees under the similarly-worded 35 U.S.C. § 285.



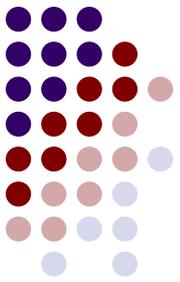
Respondents Arguments

- Respondents argue that Congress ratified the Seagate test when it passed the America Invents Act of 2011 and reenacted §284 without pertinent change.
- Respondents express the policy concern that allowing district courts unlimited discretion to award up to treble damages in infringement cases will impede innovation as companies steer well clear of any possible interference with patent rights.



Halo's Arguments

- §284 provides the district court the ability to balance all relevant facts when deciding to enhance damages.
- Federal Circuit has no basis for its application of §284 without pertinent change.
- The Supreme Court should restore enhanced patent damages to the flexible inquiry under §284.

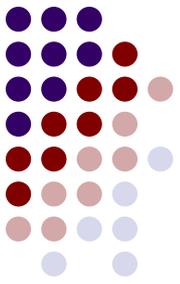


Holding

Chief Justice Roberts delivered the unanimous opinion of the Court.

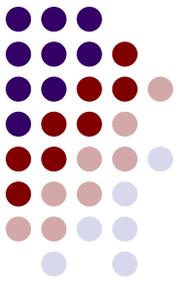
The Federal Circuit two-part test for enhanced patent infringement damages is inconsistent with 35 U.S.C. §284.

Supreme Court rejected “objectively reasonable” prong

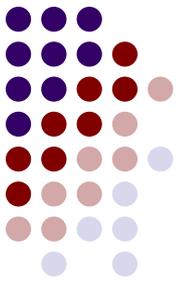


- The Court reasoned that the “objectively reasonable” prong of the *Seagate* two-part test could have the effect of excluding from discretionary punishment many of the most culpable offenders
 - (e.g., wanton and malicious pirate who infringes a patent with no doubts about its validity or any notion of a defense).
- The Court adopted a more traditional standard for awards of enhanced damages, observing that such damages “are not to be meted out in a typical infringement case, but are instead designed as a ‘punitive’ or ‘vindictive’ sanction for egregious infringement behavior.

Supreme Court rejected “objectively reasonable” prong



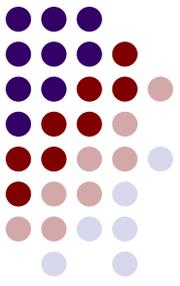
- The *Seagate* test aggravates the problem of allowing the infringer to muster a reasonable (even though unsuccessful) defense at the infringement trial.
 - (i.e., Does *Seagate* test evaluate the ingenuity of patent attorney’s defense?)
- The existence of such a defense insulates the infringer from enhanced damages, even if the infringer did not act on the basis of the defense or was even aware of it.
- However, culpability is generally measured at the time of the conduct (“intent”).



Supreme Court Reasoning

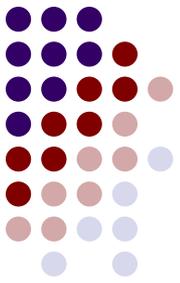
- The Court pointed to the word “may” in the text of §284 providing simply that “the court *may* increase the damages up to three times the amount found or assessed.” According to the opinion: “the “word 'may' clearly connotes discretion.”
- The Court treated the inquiry under §284 as being a single act of the district court to determine whether, in its discretion, the district court would enhance the damage award.

Supreme Court rejected Seagate's Evidentiary Burden



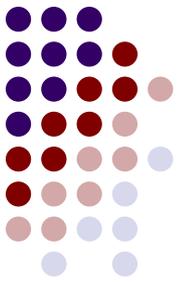
- The Supreme Court ruled that *Seagate's* requirement that recklessness be proved by clear and convincing evidence is inconsistent with §284.
- Interpreting the legislation, the Supreme Court in *Halo* held that §284 “imposes no specific evidentiary burden, much less such a high one” imposed by *Seagate*.”
- Thus, the Court lowered evidentiary standard for proving willful infringement from “clear and convincing evidence” to “by the preponderance of the evidence.”

Supreme Court rejected Seagate's Evidentiary Burden



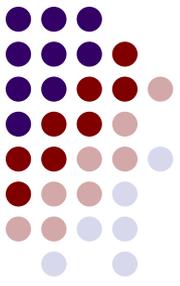
- The Supreme Court reasoned that the fact that Congress expressly established a higher standard of proof elsewhere in the Patent Act, e.g., 35 U.S.C. § 273(b), but not in §284, is telling. Since “patent-infringement litigation has always been governed by a preponderance of the evidence standard”—the high court ruled that enhanced damages were no exception.

Supreme Court rejected Federal Circuit's tripartite appellate review



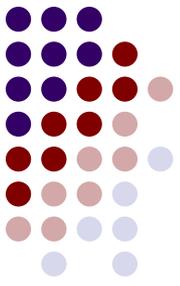
- Finally, the Supreme Court rejected the Federal Circuit's tripartite appellate review framework.
- The Court ruled that because §284 provides district courts the discretion to make the determination of whether enhanced damages are appropriate, that decision is to be reviewed on appeal **for abuse of discretion**.
- The Court stated that they cannot justify imposing an artificial construct, such as the *Seagate* test, on the limited discretion conferred under §284.

Supreme Court decision is analogous to decision in Octane Fitness

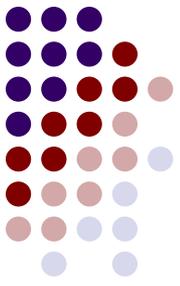


- The same conclusion in *Halo* follows from the decision in *Octane Fitness*.
- 35 U.S.C. §285 states that
 - The court in exceptional cases may award reasonable attorney fees to the prevailing party.
- The Federal Circuit adopted a two-part test for determining when a case qualified as exceptional, requiring that the claim asserted be both objectively baseless and brought in subjective bad faith.
- The Supreme Court rejected this test in *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749 (2014).

Supreme Court decision is analogous to decision in Octane Fitness

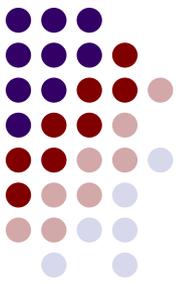


- The Court held that a case presenting “subjectively bad faith” alone could sufficiently set itself apart from mine-run cases to warrant a fee award.”
- In *Octane Fitness*, the Supreme Court also rejected the clear and convincing standard for awards of attorney’s fees because the statute provided no basis for imposing the heightened standard.
- The Supreme Court in *Octane Fitness* confirmed district court discretion to award attorney fees, and concluded that such decisions should be reviewed for abuse of discretion.



Concurring Opinion

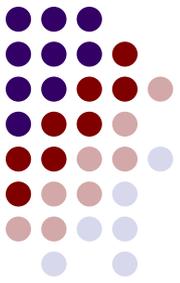
- Justice Breyer filed a concurring opinion, in which Justices Kennedy and Alito joined.
- Opinion focuses on policy considerations.
- The concurring opinion points to where the Federal Circuit can go in the future.
- A district court would necessarily abuse its discretion if it based its ruling on an erroneous view of the law (e.g., reasonableness of a defense that the patent was invalid).



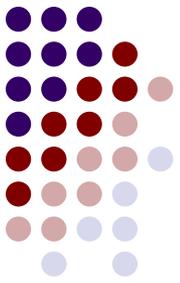
Implications of Decision

- Decision directs a new discretionary standard for awarding enhanced damages, imposing up to treble damages only in egregious cases.
- Because the *Seagate* test was overturned, expect future applications of the statute to adopt a “subjective test” involving analysis of the accused infringer’s culpability as measured by what they **knew at the time** of the challenged conduct.

Implications of Decision



- Willful infringement determinations will likely have more factually specific outcomes, the courts taking into account the particular circumstances of each case in deciding whether to award enhanced damages.
- Decisions to date have reversed and remanded lower court rulings due to the Supreme Court's decision and a significant change in the rulings on this issue is anticipated in further decisions, which likely will result in an increased exposure for willful infringers to liability of treble damages.



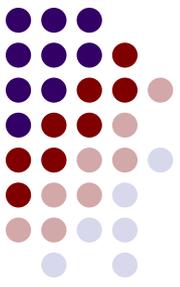
Implications of Decision

Good

- Utility patents are more valuable.
- Juries may be more willing to impose treble damages to punish wrongdoers.

Bad

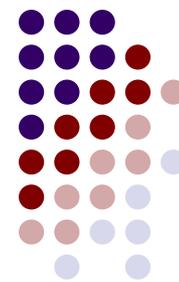
- Threat of litigation from trolls may hinder growing business.
- Risk of treble damages may encourage the growing business to settle, or even abandon the activity.



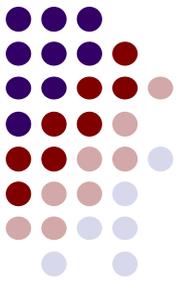
Strategies to potential infringers

- Because an infringer's action will be judged for reasonableness at the time the decision is made based on a preponderance of evidence standard, it will be advantageous for the accused infringer to present evidence showing good faith.
- Such evidence showing good faith may be an opinion from an independent counsel, if later needed in district court.
- An opinion from an independent counsel may be preferable to an opinion from in house counsel due to the risk of privileged information being revealed during a deposition.

What about infringers during Seagate time period?



- Would the opinion of outside counsel after a decision was made during *Seagate* still establish subjective good faith, even though it was years before the Supreme Court decision in *Halo*?
- It may be difficult for infringers during this time frame to rebut willfulness due to their reliance on the *Seagate* test.



Questions?