

## **Halo's Aura: How the Supreme Court's Halo Decision Will Impact Patent Damages and Influence Pre-Litigation Conduct**

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Patent infringers take note: clever defenses by ingenious litigation counsel may come too late to save you from an award of exemplary damages. On Monday, June 13, in *Halo Electronics v. Pulse Electronics* and *Stryker Corp. v. Zimmer Inc.*, a unanimous Supreme Court rejected the Federal Circuit's *Seagate* test for enhanced patent infringement damages because *Seagate*'s required proof of objective recklessness could allow unscrupulous willful infringers to escape punishment through post-hoc rationalization of their conduct by creative defense counsel. Instead, the Court refocused the analysis on the defendant's knowledge at the time the infringing conduct occurred. It also reduced the plaintiff's burden of proof to preponderance of the evidence and limited appellate review of enhanced damages awards by applying the deferential abuse of discretion standard.

*Halo* expands the availability of punitive damages in patent cases, marking a notable departure from the Court's more recent, less patentee-friendly, patent law jurisprudence. The Court did not, however, adopt the broad "totality of the circumstances" test proposed by the plaintiffs. Instead, drawing from nearly two centuries of jurisprudence, the Court emphasized that a district court's discretion has limits: "Awards of enhanced 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." The Court repeatedly invoked "willful" and "wanton" conduct "characteristic of a pirate" as the relevant measure. And, even in cases of egregious conduct, mitigating factors may be weighed by the district court.

Some issues remain open. The Court did not address the role of the judge versus the jury in determining willfulness. Nor did the Court discuss the avenues available to defeat a claim of willful infringement, or the role of a noninfringement or invalidity opinion in that regard. In a concurring opinion, Justice Breyer emphasized that accused infringers could take steps short of obtaining an opinion of counsel reasonably to evaluate infringement and validity and thereby avoid a multiple damages award.

The Court's focus on contemporaneous culpability will influence the conduct of both accused infringers and patentees. Patentees will now focus allegations of willful infringement on the extent of investigation undertaken by the accused infringer once the risk of potential infringement becomes known. For accused infringers who receive notice letters or independently discover potentially problematic patents, creating a contemporaneous record is now critical. Steps should be taken, and documented, to show that the risk of infringement was taken seriously from the outset and reasonably investigated. If that evidence exists, summary judgment defeating an exemplary damages claim should remain available under the *Halo* standard.

*Halo* does not return us to the days of *Underwater Devices* and the affirmative duty of care. Options exist short of a full blown infringement and validity analysis to rebut a finding of egregious misconduct. An opinion of counsel will not be necessary under many circumstances. Good faith could be shown by an internal determination by technically knowledgeable company employees. The analysis can be informal as long as it is bona fide, commensurate with the facts and risks, and memorialized.

Upon receipt of a notice letter, accused infringers should push back against the patentee, demanding concrete support for a claim of infringement. This puts the onus on the patent holder before resources are expended to address the accusation. A reasonable request for specificity could be considered evidence of good faith conduct, especially in light of the *Halo* concurrence's emphasis on the principle that mere knowledge of the patent will not justify enhanced damages.

Ultimately, the central lesson of *Halo* may be that accusations of infringement, or the discovery of a potentially problematic patent, should not be ignored in the hope that defenses might later be developed if a lawsuit is filed. The investigation needed to respond to allegations of infringement will vary based on the circumstances, but accusations of patent infringement should be given careful, prompt, and

documented consideration.

Pirates beware!

\* Foley Hoag LLP authored a brief for the American Intellectual Property Law Association as *amicus curiae* in *Halo* advocating for positions similar to those ultimately adopted by the Court.

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