On June 13, 2016, the Supreme Court announced its decision in *Halo Electronics, Inc. v. Pulse Electronics, Inc.*, discarding the Federal Circuit's previous standard for awarding enhanced damages in patent cases. The Supreme Court voted unanimously to overrule the "objective recklessness" standard established by the Federal Circuit in *In re Seagate Technology, LLC*, 497 F. 3d 1360 (Fed. Cir. 2007). Under *Seagate*, a patentee seeking enhanced damages must establish willful infringement by showing clear and convincing evidence that (1) the "infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent" and (2) the risk of infringement was "either known or so obvious that it should have been known to the accused infringer." In *Halo*, the Supreme Court abrogated *Seagate*'s rule by removing the "objective recklessness" standard from the willfulness inquiry. Instead, the Supreme Court focused on the subjective question of whether the infringement represents an "egregious case[] typified by willful misconduct." *Halo Elecs., Inc. v. Pulse Elecs., Inc.*, No. 14-1513, — S.Ct. —, Slip Op. at 11 (June 13, 2016). The Court also rejected the "clear and convincing evidence" standard of proof of willfulness used by the Federal Circuit and adopted the "preponderance of evidence" standard. Finally, the Court rejected the standard of review on appeal formulated by the Federal Circuit on the ultimate decision to enhance damages, instead adopting the "abuse of discretion" standard of...
Background of Decision

The Halo case dealt with appeals from two Federal Circuit cases, Halo Elecs., Inc. v. Pulse Elecs., Inc., 769 F.3d 1371 (Fed. Cir. 2014), and Stryker Corp. v. Zimmer, Inc., 782 F.3d 649, 653 (Fed. Cir. 2015). Applying the rule it established in Seagate, the Federal Circuit found no willful infringement by the accused infringers in each case (Pulse and Zimmer) because the accused infringers presented a reasonable defense at trial.

The New Standard

The Supreme Court addressed issues relating to the award of enhanced damages under 35 U.S.C. § 284.

“Objective Recklessness” Prong of Seagate

The Supreme Court rejected the two-prong test under Seagate that required both (1) an objectively high likelihood of infringement of a valid patent, and (2) a risk of infringement that was “either known or so obvious that it should have been known to the accused infringer.” Stating that the two-prong test is “unduly rigid . . and [impermissibly encumbers the statutory grant of discretion to district court[s],” the Supreme Court rejected the requirement of an objectively high likelihood of infringement. Instead, the Supreme Court focused on culpable behavior of the defendant. And because “culpability is generally measured against the knowledge of the actor at the time of the challenged conduct,” Halo, Slip Op. at 10, the Supreme Court also rejected the notion that a defendant can avoid a finding of willful infringement by mounting a reasonable defense at the time of trial, regardless of whether the infringer was aware of such defenses at that time of the challenged conduct. Id. at 10-11.

Evidentiary Burden At Trial

Under Seagate, a patentee must prove the two required elements of willful infringement—objective recklessness and knowledge of the risk—by clear and convincing evidence. The Supreme Court rejected this heightened standard of proof, finding no support in the statute that imposes any specific evidentiary burden. Thus, applying a general “preponderance of evidence” standard of proof applicable to patent infringement, the Supreme Court found the same standard also applicable to the issue of enhanced damages.

Standard of Review On Appeal

Under Seagate, a district court’s award of enhanced damages is subject to trifurcated appellate review. The first step of Seagate—objective recklessness—is reviewed de novo; the second—subjective knowledge—for substantial evidence; and the ultimate decision—whether to award enhanced damages—for abuse of discretion. See Halo, Slip Op at 5-6. The Supreme Court rejected this three-part structure in favor of the abuse of
Likely Impact

Given the Supreme Court’s emphasis on the knowledge of the defendant “at the time of the challenged conduct,” Halo, slip op. at 10-11, companies accused of patent infringement should consider obtaining an opinion letter from competent counsel without delay. Before Halo, accused infringers could rely on the fact that they could mount a credible defense at the time of litigation to negate the “objectively reckless” prong of the Seagate rule. See e.g., Stryker Corp. v. Zimmer, Inc., 782 F.3d 649, 661 (Fed. Cir. 2015), vacated and remanded sub nom. Halo Elecs., Inc. v. Pulse Elecs., Inc., No. 14-1513, --- S.Ct. ----, 2016 WL 3221515 (June 13, 2016). Post-Halo, companies accused of infringement should build a record that supports the reasonableness of the decision to continue to operate in the same manner. Advice of competent counsel can bolster the argument that the decision to continue operations was not made in subjective bad faith.

Although 35 U.S.C. § 298 prohibits using the failure to obtain an opinion letter “to prove that the accused infringer willfully infringed the patent,” the inverse is not true. Section 298 merely provides a way to enforce the pre-Seagate Federal Circuit rule that “no adverse inference that an opinion of counsel was or would have been unfavorable flows from an alleged infringer’s failure to obtain or produce an exculpatory opinion of counsel.” Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp., 383 F. 3d 1337, 1341 (Fed. Cir. 2004).

Though the Court’s unanimous opinion gives district courts wider latitude to apply enhanced damages under the abuse-of-discretion standard, a concurrence by Justice Breyer, joined by Justices Kennedy and Alito, suggests at least two judicial limitations to that discretion: (1) mere knowledge of the patent is insufficient to support enhanced damages; and (2) “enhanced damages may not serve to compensate patentees for infringement-related costs or litigation expenses.”

Seagate’s ruling on the scope of privilege waiver when an accused infringer relies on advice of counsel as a defense to willful infringement does not appear to have been affected by Halo, and may become more pertinent to defendants post-Halo. In Seagate, the Federal Circuit stated that, “as a general proposition, [] asserting the advice of counsel defense and disclosing opinions of opinion counsel do not constitute waiver of the attorney-client privilege for communications with trial counsel.” Seagate, 497 F. 3d at 1374. Companies anticipating use of advice of counsel as a defense to a charge of willful infringement should be mindful of the scope of potential privilege waiver. Certain precautions, such as retaining trial counsel that is different from opinion counsel, segregating the work product of trial counsel from that of opinion counsel, and maintaining separate lines of communication with trial counsel and opinion counsel may help avoid privilege waiver from extending to communications with the trial counsel.
This memorandum is a summary for general information and discussion only and may be considered an advertisement for certain purposes. It is not a full analysis of the matters presented, may not be relied upon as legal advice, and does not purport to represent the views of our clients or the Firm. John Kappos, an O'Melveny partner licensed to practice law in California, and Bo Moon, an O'Melveny counsel licensed to practice law in California, contributed to the content of this newsletter. The views expressed in this newsletter are the views of the authors except as otherwise noted.