Clients&FriendsMemo

Supreme Court Reinvigorates Effectiveness of Obtaining an Opinion of Counsel to Defend against Potential Enhanced Damages for Willful Infringement in *Halo Electronics*

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On June 13, 2016, the U.S. Supreme Court again reversed a decision of the Federal Circuit—the Circuit specially designated to hear all patent appeals—this time, in articulating the test for determining whether to award enhanced damages for willful patent infringement in *Halo Electronics, Inc. v. Pulse Electronics, Inc.*[1] This is the third time in two years that the Court has reversed the Federal Circuit on remedies in high-stakes patent litigation.[2] In an opinion that harkens, in part, back to 1980's patent law, Chief Justice Roberts and a unanimous Supreme Court held that parties who have actual knowledge that their activities may infringe another's patent must *subjectively* believe that their actions are legal, and no longer can rely on theories of objective reasonableness first developed at the time of trial to avoid enhanced damages.

I. Opinions of Counsel at The Federal Circuit

The *Halo Electronics* decision expressly overruled a 2007 Federal Circuit case, *In re Seagate Technologies*, which had used a two-part test to determine whether the defendant willfully infringed. Under *Seagate*, courts first had to find that the actions taken by the alleged infringer were objectively reckless.[3] Second, the Court had to find that the defendant acted in a subjectively reckless manner: that they actually acted in bad faith to infringe the plaintiff's patent.[4]

The *Seagate* test created a situation where defense counsel could place the weight of their strategy on showing that the defendant's conduct was objectively reasonable *after the fact* at trial. Under this test, it was sufficient to show just one scenario where it would have been reasonable to believe that the defendant's conduct would not have fallen under the plaintiff's patent, or that the patent would be invalid.[5] This emphasis on what the defendant *could have thought*, rather than what it *actually had thought*, resulted in the prospect of enhanced damages becoming very difficult to obtain.[6]

Seagate itself represented a shift away from the Federal Circuit's earlier test, established by *Underwater Devices* in 1983, which placed an "affirmative duty" on the defendant to obtain a competent opinion of counsel to avoid the threat of treble damages.[7] Such an opinion of counsel

represented the documented legal understanding of the defendant as to whether it believed the plaintiff's patent was valid, and/or covered the defendant's activities. A defendant relied upon the opinion of counsel to avoid a finding of willfulness if its actions were later deemed infringing.

To be competent, an opinion of counsel had to investigate the file histories of the patents to determine both their validity and their applicability to the defendant's actions.[8] Additionally, whether the opinion came from a licensed patent attorney, and the extent to which the attorney was affiliated with the defendant, also were considered in determining the competency of the opinion.[9] The Federal Circuit made it clear that conclusory opinions made by affiliated in-house counsel, lacking in patent training and expertise, would not be deemed competent.[10]

The Federal Circuit's shift away from *Underwater Devices* came with industrywide changes in the field of patent litigation.[11] With the rise in lawsuits pursued by non-practicing entities, the Federal Circuit recognized that many defendants lacked the resources to obtain a competent opinion of counsel every time they received a cease-and-desist letter from a patent holder. In this regard, the *Halo* Supreme Court also agreed with the Federal Circuit that the "affirmative duty" standard of *Underwater Devices* was inappropriate.

II. What *Halo Electronics* Means for Patent Defendants

The Supreme Court, in overruling *Seagate*, held that a showing of *subjective* recklessness nonetheless would be required for Courts to consider awarding enhanced damages.[12] By removing *Seagate*'s "objectively reasonable standard" prong, *Halo Electronics* has the effect of shifting the timeline in which the defendant must establish the reasonableness of its actions. Rather than permitting an after-the-fact showing of objective reasonableness through theories devised for trial, *Halo Electronics* places an onus on defendant to prove that it believed, at the time of its actions, that it did not infringe another's patent, or that the patent was invalid.

The Court seemed most troubled by the idea that a truly malicious infringer could avoid treble damages under the *Seagate* test solely as a result of its trial lawyer's creative trial presentation of what the defendant could have thought.[13] Rather than provide defendants with beforehand *and* after-the-fact defenses, the *Halo Electronics* decision encourages defendants to be proactive. Although *Halo Electronics* reduces the number of options available to a defendant, the options that remain include a clear and safe path around the threat of potential enhanced damages by way of an opinion.

III. *Halo Electronics* Shields Patent Defendants Who Proactively Obtain an Opinion of Counsel

In some ways, *Halo Electronics* represents a shift back to the *Underwater Devices* era, with at least one critical difference. *Underwater Devices* made obtaining a competent opinion of counsel an

affirmative duty for defendants in order to avoid enhanced damages. In contrast, the *Halo Electronics* decision rejected the notion of an "affirmative duty" as in *Underwater Devices*.

As Justice Breyer noted in his concurrence, *Halo Electronics* does not create any rigid affirmative duties akin to those in *Underwater Devices*.[14] Instead, it implicitly holds that a competent opinion of counsel, though not *necessary* to avoid treble damages, nearly always would be *sufficient* to avoid them. By acting in honest reliance on documented, independent legal advice stating that the patents are either invalid or do not cover the conduct at issue, the defendant cannot act with the bad faith the Court requires. Thus, proactively obtaining a competent opinion of counsel can be a highly effective way to shield potential infringers from the threat of enhanced damages.

On a practical level, the up-front cost of obtaining an opinion of counsel pales in comparison to the cost of protracted litigation to determine the willfulness of the defendant's actions. Ultimately, by relying on a competent opinion of counsel, a defendant can protect itself against the threat of enhanced damages well before trial at the pleadings or summary judgment stages. Moreover, the removal of enhanced damages also disarms a critical weapon plaintiffs could wield in settlement negotiations.

IV. Opinions of Counsel at Cadwalader

One area of practice of the Intellectual Property Group at Cadwalader specializes in advising clients regarding potential patent infringements and developing defenses once a client becomes aware of a potentially problematic patent. The IP Group has prepared hundreds of opinions of counsel in a diverse array of technologies, from electronics to pharmaceuticals and mechanical devices.

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[1] *Halo Elecs., Inc. v. Pulse Elecs., Inc.*, 579 U.S. ___ (2016).
[2] *See Highmark Inc. v. Allcare Health Mgmt. Sys., Inc.*, 134 S. Ct. 1744 (2014); *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749 (2014); *see generally* Ronald Mann, *Opinion analysis:*

Where have I read this before? Justices tread familiar path limiting Federal Circuit control over remedies in patent cases, SCOTUSblog (Jun. 16, 2016, 8:04 AM), http://goo.gl/DzNlIC.

[3] *In re Seagate Tech.*, LLC, 497 F.3d 1360, 1384 (Fed. Cir. 2007).

[4] "[Defendant's] subjective beliefs may become relevant only if [plaintiff] successfully makes this showing of objective unreasonableness." *Id*. *Accord Prof'l Real Estate Inv'rs, Inc. v. Columbia Pictures Indus., Inc.*, 508 U.S. 49, 61 (1993) (describing similar objective, then subjective, two-part test determining when litigation is a "sham" for antitrust purposes); *Octane Fitness*, 134 S. Ct. at 1751-52 (refusing to further extend *Prof'l Real Estate*'s definition of "sham" litigation in context of patent litigation).

[5] "Under that standard, 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." *Halo Elecs.*, 579 U.S. at ___ (slip op. at 10).

[6] *Id.*

[7] *Underwater Devices Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380, 1389 (Fed. Cir. 1983).

[8] *Id.* at 1390.

[9] *Id*.

[10] *Id.*

[11] "*Seagate*, it would seem . . . would reflect the Federal Circuit's directed response to patent trolls. . . ." Dov Greenbaum, *In re Seagate: Did It Really Fix the Waiver Issue? A Short Review and Analysis of Waiver Resulting from the Use of A Counsel's Opinion Letter As A Defense to Willful Infringement*, 12 MARQ. INTELL. PROP. L. REV. 155, 183 (2008).

[12] *Halo Elecs.*, 579 U.S. at ___ (slip op. at 10).

[13] *Id.* at ___ (slip op. at 9).

[14] "[C]onsulting counsel may help draw the line between infringing and noninfringing uses," but it is not required. *Id.* at ___ (slip op. at 3) (Breyer, J., concurring).