

## Notes

# **CREATING A MORE CERTAIN STANDARD FOR ENHANCED PATENT DAMAGES BY REQUIRING EGREGIOUSNESS AS AN ELEMENT IN THE SECTION 284 ANALYSIS**

BRIAN BARNES<sup>†</sup>

### ABSTRACT

*According to 35 U.S.C. § 284, district courts have the power to “increase the damages up to three times the amount found or assessed” by the jury in patent infringement cases where willful infringement occurred. Following the recent Supreme Court decision in Halo Electronics, Inc. v. Pulse Electronics, Inc., it is now less clear how courts are to go about deciding whether to exercise this power. Halo established that the decision lies within the discretion of the district court judge, but declined to give a more concrete standard than urging the judge to “take into account the particular circumstances of each case” and only increase damages in “egregious cases typified by willful misconduct.” This Note proposes a new standard that is consistent with the Halo framework that will bring more certainty to enhanced damages decisions.*

*Under this Note’s proposed standard, before an award of enhanced damages can be made, the jury must find that infringement was willful, and the judge must find that the infringement was egregious under the standards established by the Federal Circuit. The egregiousness of the infringement is an explicit element that must be established before enhanced damages can be awarded. After these two elements are satisfied, the judge would have the discretion to award enhanced damages depending on the circumstances of the case. The egregiousness element is a mixed question of fact and law, so factual determinations made by the lower court are subject to clear error review and the overall legal determination of egregiousness is subject to de novo review by the Federal Circuit. This proposed standard would*

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<sup>†</sup> Duke University School of Law, J.D. expected 2018; University of Nevada, Reno, B.S. 2015.

*allow the Federal Circuit to reduce the uncertainty left by Halo, making it clear that egregiousness is required for every award of enhanced damages and providing a framework of specific factors district courts should weigh in making that determination.*

## INTRODUCTION

Damages in patent infringement cases can be extreme, with recent awards reaching over the billion dollar mark.<sup>1</sup> These damages are supposed to be equal to what a reasonable royalty of the patent would be;<sup>2</sup> however, due to language in 35 U.S.C. § 284, the actual damages can grow to up to three times the reasonable royalty amount.<sup>3</sup> According to the statute, the “court may increase the damages up to three times the amount found or assessed.”<sup>4</sup> Supreme Court precedent interpreting that language establishes that this power should be reserved for cases of “willful or bad-faith infringement.”<sup>5</sup> Following the recent Supreme Court decision in *Halo Electronics, Inc. v. Pulse Electronics, Inc.*,<sup>6</sup> however, it is now less clear how courts are to decide whether to award these enhanced damages.<sup>7</sup>

Before *Halo*, judges deciding whether to award enhanced damages were guided by the two-part test established by the United States Court of Appeals for the Federal Circuit in *In re Seagate Technology, LLC*.<sup>8</sup> Under that standard, for a judge to award enhanced damages, she must find both that the infringer “acted despite an objectively high likelihood that its actions constituted infringement”

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1. In December of 2016, a jury in Wilmington, Delaware awarded \$2.54 billion to pharmaceutical giant Merck against Gilead Sciences for infringement of a patent related to a popular hepatitis drug. See Susan Decker & Christopher Yaszko, *Merck Wins Record \$2.5 Billion Patent Verdict Against Gilead*, BLOOMBERG (Dec. 15, 2016, 5:56 PM), <https://www.bloomberg.com/news/articles/2016-12-15/gilead-told-to-pay-merck-2-54-billion-in-hepatitis-c-royalties> [<https://perma.cc/8L8W-YUT4>].

2. 35 U.S.C. § 284 (2012).

3. *Id.*

4. *Id.*

5. *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 508 (1964).

6. *Halo Elecs., Inc. v. Pulse Elecs., Inc.*, 136 S. Ct. 1923 (2016).

7. See *id.* at 1932–35 (establishing that decisions on § 284 enhanced damages are within the discretion of the district court and giving no specific factors for district courts to apply in the analysis).

8. See *In re Seagate Tech., LLC*, 497 F.3d 1360, 1371 (Fed. Cir. 2007) (establishing a two-part test for § 284 decisions requiring objective recklessness and subjective knowledge of the risk of infringement).

and that the risk of infringement “was either known or so obvious that it should have been known to the accused infringer.”<sup>9</sup>

The *Seagate* test made clear how a district court judge should determine whether to treble damages under § 284, but it also created a potential loophole by shifting the focus of the analysis away from defendants’ actions at the time of infringement and toward their attorney’s ability to make arguments at trial.<sup>10</sup> If, during trial, defense counsel could come up with a reasonable argument that a defendant’s actions did not constitute infringement, the objective prong of the *Seagate* test was not satisfied.<sup>11</sup> This was true even if the defendant had not considered or was unaware of the argument when it was actually infringing.<sup>12</sup> For example, consider a defendant who was aware of the plaintiff’s patent and believed that the patent’s claims cover its product, but decided to forgo license negotiations and intentionally infringe the patent. If, during the infringement trial, the defendant’s attorney put forth a reasonable argument that the claims of the patent did not actually read on defendant’s product, the *Seagate* test would not be satisfied. The fact that, at the time of infringement, the defendant was not acting on the basis cited in the attorney’s argument is immaterial and enhanced damages would be precluded. Troubled by this possible result, the Supreme Court rejected the two-part *Seagate* test as overly “rigid” and inconsistent with § 284 in *Halo*.<sup>13</sup>

Leaning on Supreme Court precedent for determining the standard for the patent law attorney fee shifting statute,<sup>14</sup> the *Halo* Court established that the decision whether to award enhanced damages lies within the discretion of the district court judge.<sup>15</sup> The Court did not give a specific test or factors for the judge to apply, but noted that she should “take into account the particular circumstances of each case” and that enhanced damages “should generally be reserved for egregious cases typified by willful misconduct.”<sup>16</sup> Though

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9. *Id.*

10. *See Halo Elecs., Inc.*, 136 S. Ct. at 1926 (noting that the *Seagate* test makes “the ability of the infringer to muster a reasonable [even though unsuccessful] defense at the infringement trial” dispositive on enhanced damages “even if he did not act on the basis of the defense or was even aware of it”).

11. *Id.*

12. *Id.*

13. *Id.* at 1932.

14. 35 U.S.C. § 285 (2012).

15. *Halo Elecs., Inc.*, 136 S. Ct. at 1933.

16. *Id.* at 1933–34.

this eliminates the loophole that insulated malicious and bad faith infringers, it also makes it less clear whether enhanced damages will be granted and how the judge will actually go about making that decision or even what factors she will consider. In addition, the language of the opinion is not clear on whether and to what extent egregiousness is necessary.<sup>17</sup> This lack of clarity is embodied in a split that is emerging in the pleading standards of district courts applying *Halo*.<sup>18</sup>

*Halo* also established that these decisions will be reviewed for abuse of discretion on appeal.<sup>19</sup> This simplifies the tripartite framework that had been applied to the *Seagate* test<sup>20</sup> but makes it unlikely that more clarity will come from appellate review by the Federal Circuit.

The lack of certainty created by *Halo* is quite unsettling. Uncertainty in patent law undermines the foundational goal of the patent system: to encourage innovation and the disclosure of inventions.<sup>21</sup> Uncertainty in the context of enhanced damages affects patentees, who will now be less sure of the value of their patent, as well as nonpatentees, who will be less certain about how their actions might subject them to enhanced damages. Although an actual award for enhanced damages is rare, willfulness is alleged in the vast majority of patent infringement cases.<sup>22</sup> Thus, even the potential for a finding of willfulness can have a significant impact on litigation settlements and

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17. See *Halo Elecs., Inc.*, 136 S. Ct. at 1934 (stating that enhanced damages “should generally be reserved for egregious cases”).

18. One article analyzing district court decisions in the first six months following the *Halo* decision found a division in the pleading required for an allegation of willful infringement. The article found that some courts held that simply pleading that the defendant had knowledge of the patent was sufficient, while other courts, typically citing Justice Breyer’s concurrence, require a pleading of egregiousness as well. See Natalie Hanlon Leh & Michael Silhasek, *2 Ways Courts Approach Willful Infringement After Halo*, LAW360 (Jan. 18, 2017, 12:35 PM), <https://www.law360.com/articles/876994/2-ways-courts-approach-willful-infringement-after-halo> [<https://perma.cc/2CDJ-NFFZ>].

19. *Halo Elecs., Inc.*, 136 S. Ct. at 1934.

20. The Federal Circuit determined that the *Seagate* test was a mixed question of fact and law. The objective reasonableness prong was subject to de novo review by the Federal Circuit, whereas the subjective prong was reviewed for substantial evidence. *Bard Peripheral Vascular, Inc. v. W.L. Gore & Assocs., Inc.*, 682 F.3d 1003, 1006 (Fed. Cir. 2012). The overall determination of whether to grant enhanced damages was then reviewed for abuse of discretion, creating a tripartite system for reviewing enhanced damages decisions. *Spectralytics, Inc. v. Cordis Corp.*, 649 F.3d 1336, 1347 (Fed. Cir. 2011).

21. Kelly Casey Mullally, *Legal (Un)certainty, Legal Process, and Patent Law*, 43 LOY. L.A. L. REV. 1109, 1112 (2009).

22. A study of 1,721 patent infringement cases in a two-year period from 1999–2000 found that willfulness was alleged in 92.3 percent of the cases. See Kimberly A. Moore, *Empirical Statistics on Willful Patent Infringement*, 14 FED. CIR. B.J. 227, 231–32 (2004).

patent licensing fees because of the financial impact of trebled damages awards.<sup>23</sup>

The potential impact of an enhanced damages award highlights another issue with the *Halo* framework: lowering the standard for granting enhanced damages. Though the Court in *Halo* notes that enhanced damages should be awarded only in egregious circumstances,<sup>24</sup> its framework makes maintaining this standard unlikely. The abuse of discretion appellate review requires that the district court “based its ruling on an erroneous view of the law or on a clearly erroneous assessment of the evidence” in order to be reversed.<sup>25</sup> Such deferential appellate review does not allow the Federal Circuit to ensure that enhanced damages are actually limited to egregious cases by the district courts.<sup>26</sup> Following *Halo*, it is unclear what kind of conduct district courts should look for when deciding enhanced damages awards.<sup>27</sup> It is therefore unlikely that the Federal Circuit will find a district court decision to be based on “a clearly erroneous assessment of the evidence,”<sup>28</sup> even when a defendant’s conduct was not actually egregious enough to make enhanced damages appropriate. For example, suppose a district court awards enhanced damages because the defendant received a letter giving them notice of the patent at issue as well as several other patents that allegedly cover their product, and did not seek the advice of counsel as to whether they were infringing any of the patents. Even if the defendant lacked malicious intent and the infringement had a short duration, a decision awarding enhanced damages likely would not meet the abuse of discretion standard even though the infringement is not truly egregious enough to warrant treble damages.

Whereas *Halo* created uncertainty and a lowered standard, the alternative seemed to be maintaining the two-part standard of *Seagate* and its loophole that “insulat[ed] some of the worst patent infringers

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23. See *Halo Elecs., Inc.*, 136 S. Ct. at 1937 (Breyer, J., concurring) (noting that the “risk of treble damages can encourage [a] company to settle, or even abandon any challenged activity”).

24. *Id.* at 1932.

25. *Cooter & Gell v. Hartmarx Corp.*, 496 U.S. 384, 405 (1990).

26. See Henry J. Friendly, *Indiscretion About Discretion*, 31 EMORY L.J. 747, 758 (1982) (noting that “broad judicial review is necessary to preserve the most basic principle of jurisprudence that ‘we must act alike in all cases of like nature.’” (quoting *Ward v. James*, [1986] 1 Q.B. 273, 294 (C.A.))).

27. *Halo Elecs., Inc.*, 136 S. Ct. at 1932–35 (establishing that decisions on § 284 enhanced damages are within the discretion of the district court and giving no specific factors that district courts should apply to this analysis).

28. *Cooter & Gell*, 496 U.S. at 405.

from any liability for enhanced damages.”<sup>29</sup> This Note proposes an approach that provides a more balanced solution to the § 284 analysis than either of the *Halo* and *Seagate* tests.

Under this Note’s proposed standard, before an award of enhanced damages can be made, the jury must find that infringement was willful, and the judge must find that the infringement was egregious under the standards established by the Federal Circuit. After these two elements are satisfied, the judge would have the discretion to award enhanced damages depending on the circumstances of the case. This proposed standard makes the egregiousness of the infringement an explicit element that must be established before enhanced damages can be awarded, resolving part of the uncertainty left by *Halo* as to whether and what extent egregiousness is actually required.<sup>30</sup> Similar to the question of whether a patent is nonobvious, this element is a mixed question of fact and law, so factual determinations made by the lower court are subject to clear error review and the overall legal determination of egregiousness is subject to de novo review by the Federal Circuit.<sup>31</sup> This allows the Federal Circuit to establish factors for determining when infringement is egregious, such as the “closeness of the case,” “duration of defendant’s misconduct,” “remedial action by defendant,” and “defendant’s motivation for harm,”<sup>32</sup> to help ensure that enhanced damages are only applied in cases warranting such an award.<sup>33</sup>

This standard closes the loophole created by the objective prong of *Seagate* that enabled willful and malicious infringers to escape enhanced damages if their lawyers could come up with a reasonable argument at trial. It also allows the Federal Circuit to better achieve its purpose of bringing uniformity and clarity to patent law,<sup>34</sup> a goal which

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29. *Halo Elecs., Inc.*, 136 S. Ct. at 1932.

30. For further discussion of the uncertainty created by *Halo*, see *infra* Part III.A.

31. Per 35 U.S.C. § 103 (2012), for an invention to be patentable it must be nonobvious to a person of ordinary skill in the art given the prior art that existed at the time the patent application was filed. The Federal Circuit has determined that the question of whether an invention is obvious or not is a “conclusion of law based on the factual underpinnings” determined by the finder of fact. *Jurgens v. McKasy*, 927 F.2d 1552, 1558 (Fed. Cir. 1991). Accordingly, the Federal Circuit reviews the factual findings supporting this conclusion for clear error, but applies de novo review to the ultimate conclusion of whether a patent is obvious or not in light of those factual findings. *Kinetic Concepts, Inc. v. Smith & Nephew, Inc.*, 688 F.3d 1342, 1356–57 (Fed. Cir. 2012).

32. *Read Corp. v. Portec, Inc.*, 970 F.2d 816, 827 (Fed. Cir. 1992).

33. See *Halo Elecs., Inc.*, 136 S. Ct. at 1932 (noting that enhanced damages are “reserved for egregious cases of culpable behavior”).

34. H.R. REP. NO. 97-312, at 20–23 (1981).

has been explicitly recognized as an important consideration by the Supreme Court.<sup>35</sup>

Part I of this Note reviews the background of enhanced damages in patent law, including the history of § 284 and the development of the doctrine interpreting and applying it up through *Seagate*. Part II analyzes *Halo*'s rejection of the two-part *Seagate* test and discusses how the *Halo* Court relied on its reasoning from a prior case interpreting § 285, which governs attorney fee shifting in patent infringement cases,<sup>36</sup> and why this reliance was misplaced. Part III discusses the issues that arise from *Halo*'s regime of granting discretion to district courts on enhanced damages, including abuse of discretion appellate review, coupled with the removal of any concrete guiding standards. The *Halo* framework injects innovation-harming uncertainty into the enhanced damages analysis. The Court's assertion that reliance on "[n]early two centuries of exercising discretion in awarding enhanced damages"<sup>37</sup> is unavailing because recent changes in the patent ecosystem have had a significant impact on the policy considerations weighing on enhanced damages. Part IV outlines the proposed § 284 enhanced damages standard noted above, establishing egregiousness as a required element and allowing for meaningful de novo review by the Federal Circuit of that element to ensure that enhanced damages are only granted in appropriate cases. This proposed standard will allow the Federal Circuit to reduce the uncertainty left by *Halo*, making it clear that egregiousness is required for every award of enhanced damages and providing a framework of specific factors district courts should weigh in making that determination.

## I. BACKGROUND OF ENHANCED DAMAGES: 35 U.S.C. § 284 AND PRE-*HALO* DOCTRINE

The language of the enhanced damages provision of § 284 is short and simple: "[the] court may increase the damages up to three times the amount found or assessed."<sup>38</sup> On its face, it gives no guidance to courts on their ability to award enhanced damages in patent cases.

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35. See *Markman v. Westview Instruments, Inc.*, 517 U.S. 370, 390 (1996) (noting that "Congress created the Court of Appeals for the Federal Circuit as an exclusive appellate court for patent cases" to bring "desirable uniformity" to patent law).

36. See *Halo Elecs., Inc.*, 136 S. Ct. at 1932 (noting that the Court's "recent decision in *Octane Fitness* arose in a different context but points in the same direction").

37. *Id.* at 1934.

38. 35 U.S.C. § 284 (2012).

Therefore any analysis of the proper application of this power requires examining the statute's history and the doctrine that has evolved around it.

A. *35 U.S.C. § 284: Evolution from Mandatory to Discretionary Trebled Damages*

As the Court noted in *Halo*, enhanced damages are a very old part of patent law.<sup>39</sup> According to the Patent Act of 1793, trebled damages were the minimum amount that could be awarded for any successful patent infringement suit.<sup>40</sup> Trebled damages were mandatory due to fears that most juries would be anti-patent, causing inventors to worry that they would not be able to fully assert their rights against infringers.<sup>41</sup> Therefore enhanced damages were thought as a necessary additional incentive for inventors to disclose their work through the patent system.<sup>42</sup> This provision was revised in 1800, but maintained mandatory trebled damages and made them the required amount instead of the minimum.<sup>43</sup> These early statutes highlight that damages for patent infringement were originally viewed as “punitive and not merely compensatory in nature.”<sup>44</sup>

That attitude shifted when the Patent Act of 1836 did away with mandatory trebled damages in patent infringement and instead allowed courts to increase damages “not exceeding three times the amount [of the jury’s award], according to the circumstances of the case.”<sup>45</sup> This provision made enhanced damages discretionary, but like

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39. *Halo Elecs., Inc.*, 136 S. Ct. at 1928.

40. See Patent Act of 1793, ch. 11, § 5, 1 Stat. 318, 322 (repealed 1836) (stating that damages are to be “a sum, that shall be at least equal to three times the price, for which the patentee has usually sold or licensed to other persons”).

41. See Jon E. Wright, Note, *Willful Patent Infringement and Enhanced Damages—Evolution and Analysis*, 10 GEO. MASON L. REV. 97, 99–100 (2001) (“Historian Edward Walterscheid posits that this portion of the Patent Act was the result of lobbying by Joseph Barnes . . . [Barnes] feared most people would be anti-patent and reluctant to award damages.” (footnote omitted) (citing EDWARD C. WALTERSCHEID, *TO PROMOTE THE PROGRESS OF USEFUL ARTS: AMERICAN PATENT LAW AND ADMINISTRATION, 1798-1836*, at 209–10 (1998))).

42. *Id.* at 100.

43. Patent Act of 1800, ch. 25, § 3, 2 Stat. 37, 38 (repealed 1836).

44. See Wright, *supra* note 41, at 100 (noting that Circuit Judge Story stated that patent damages should be “estimated as high, as they can be, consistently with the rule of law” so that “wrong doers may not reap the fruits of the labor and genius of other men” (quoting *Lowell v. Lewis*, 15 F. Cas. 1018, 1019 (D. Mass. 1817))).

45. Patent Act of 1836, ch. 357, § 14, 5 Stat. 117, 123 (codified as amended at 35 U.S.C. § 284 (2012)).



the current version, did not give any guidance as to the standard that should apply to the decision to increase damages.<sup>46</sup>

The statute was revised twice more in 1946 and 1952, but neither revision included any substantive change to the trebled damages provision.<sup>47</sup> Legislative history from the 1946 revision indicates that trebled damages were meant to serve a deterrent purpose in addition to their traditional punitive role.<sup>48</sup> The standard for damages in patent infringement cases was changed to a reasonable royalty of the patent, so the rationale was that “[w]ithout the fear of triple damages, potential infringers would have little incentive to seek a license.”<sup>49</sup> If an infringer would only have to pay a reasonable royalty fee as damages, they might be tempted to risk litigation instead of negotiating on the front end for a license of the patent. While the purpose for the now discretionary ability to treble damages is clear from the legislative history, the language of the statute still left it up to the courts to develop the doctrine controlling when that ability should be exercised. The following section discusses the evolution of that doctrine leading up to the Federal Circuit’s *Seagate* decision.

*B. Pre-Seagate Doctrine: Focusing on Totality of the Circumstances and the Affirmative Duty To Seek Advice of Counsel*

Due to the lack of guidance from the statutory language,<sup>50</sup> courts have had to develop a doctrine to guide the application of § 284. In *Seymour v. McCormick*,<sup>51</sup> an early decision overturning an award of enhanced damages, the Supreme Court indicated that enhanced damages were only appropriate for “wanton or malicious” conduct.<sup>52</sup> The Court recognized that the prior rule mandating trebled damages in all successful infringement suits was “manifestly unjust” because it

46. See Wright, *supra* note 41, at 101 (“When Congress . . . [made] treble damages the maximum discretionary amount, they did not provide any guidance with respect to when treble damages should be awarded.”).

47. See *id.* at 100 (“Section 284 of the Patent Act of 1952, which governs today, made no substantive changes to the treble damages provision of 1836.” (footnote omitted) (citing 35 U.S.C. § 284)).

48. S. REP. NO. 79-1503, at 2 (1946) (trebled damages were meant to “discourage infringement of a patent by anyone thinking that all he would be required to pay would be a royalty”).

49. Wright, *supra* note 41, at 100.

50. For further discussion of the language of § 284, see *supra* note 38 and accompanying text.

51. *Seymour v. McCormick*, 57 U.S. (16 How.) 480 (1853).

52. See *id.* at 489 (holding that “where the injury is wanton or malicious, a jury may inflict vindictive or exemplary damages”).

equated parties who “acted in ignorance or good faith” with “the wanton or malicious pirate.”<sup>53</sup>

While applying the standard established in *Seymour*, courts began to include defendants’ reliance on the advice of counsel that they were not infringing the patent as a mitigating factor in the analysis.<sup>54</sup> The recognition of this mitigating factor evolved into a “suggestion by several circuit courts of an affirmative duty to obtain an opinion of counsel” to avoid enhanced damages.<sup>55</sup>

After it was established as the sole venue for patent law appeals in 1982,<sup>56</sup> the Federal Circuit in *Underwater Devices Inc. v. Morrison-Knudsen Co.*<sup>57</sup> solidified the affirmative duty to obtain advice of counsel, at least in cases where the defendant had “actual notice of another’s patent rights.”<sup>58</sup> In addition to cementing this duty, *Underwater Devices* held that the determination of whether to award enhanced damages was to be a “totality of the circumstances” test.<sup>59</sup> In *Read Corp. v. Portec, Inc.*,<sup>60</sup> the Federal Circuit gave lower courts more guidance on how to analyze the “totality of the circumstances” by summarizing a list of nine factors courts should consider when weighing the circumstances of a case.<sup>61</sup> *Read Corp.* emphasized that finding willful infringement did not mandate enhanced damages and that the “paramount determination” in enhanced damages decisions

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53. *Id.* at 488.

54. See Wright, *supra* note 41, at 103 (citing *Union Carbide Corp. v. Graver Tank & Mfg. Co.*, 282 F.2d 653, 662 (7th Cir. 1960)) (noting that the court in *Union Carbide Corp.* concluded that the defendant’s reliance on the opinion of counsel indicated that they had acted in good faith, so enhanced damages were not appropriate).

55. *Id.*

56. See Federal Courts Improvement Act of 1982, Pub. L. No. 97-164, 96 Stat. 25 (1982) (codified as amended at 28 U.S.C. § 1295 (2012)) (creating the United States Court of Appeals for the Federal Circuit and granting it exclusive jurisdiction over patent law appeals).

57. *Underwater Devices Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380 (Fed. Cir. 1983), overruled by *In re Seagate Tech., LLC*, 497 F.3d 1360 (Fed. Cir. 2007).

58. *Id.* at 1389–90.

59. *Cent. Soya Co. v. Geo. A. Hormel & Co.*, 723 F.2d 1573, 1577 (Fed. Cir. 1983) (quoting *Underwater Devices Inc.*, 717 F.2d at 1390).

60. *Read Corp. v. Portec, Inc.*, 970 F.2d 816 (Fed. Cir. 1992).

61. *Id.* at 827. The nine factors were: 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) defendant’s size and financial condition; 5) closeness of the case; 6) duration of defendant’s conduct; 7) remedial action by defendant; 8) defendant’s motivation for harm; and 9) whether defendant attempted to conceal its misconduct. *Id.*

“is the egregiousness of the defendant’s conduct based on all the facts and circumstances.”<sup>62</sup>

The Federal Circuit then took the affirmative duty one step further, establishing that the failure of a party to assert that it sought the advice of counsel “would warrant the conclusion that it either obtained no advice of counsel or did so and was advised that its importation and sale of the accused products would be an infringement.”<sup>63</sup> This put significant pressure on parties to produce their communications with their patent counsel, which would waive the attorney-client privilege for those communications.<sup>64</sup> The Federal Circuit recognized that this doctrine had “resulted in inappropriate burdens on the attorney-client relationship” in *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*<sup>65</sup> *Knorr-Bremse* rejected the idea that an adverse inference could arise from a defendant asserting attorney-client privilege or failing to obtain advice of counsel as to infringement.<sup>66</sup> It did not go so far as to overrule *Underwater Devices* however, and it reinforced that “there continue[d] to be ‘an affirmative duty of due care to avoid infringement of the known patent rights of others.’”<sup>67</sup>

The decision in *Knorr-Bremse* was later criticized for not explicitly stating what was required of infringement defendants to satisfy the affirmative duty of due care.<sup>68</sup> This confused state of the doctrine set the stage for the Federal Circuit’s next big shift on enhanced damages in *Seagate*.

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62. *Id.* at 826.

63. *Kloster Speedsteel AB v. Crucible Inc.*, 793 F.2d 1565, 1580 (Fed. Cir. 1986), overruled by *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337 (Fed. Cir. 2004).

64. See John Dragseth, *Coerced Waiver of the Attorney-Client Privilege for Opinions of Counsel in Patent Litigation*, 80 MINN. L. REV. 167, 167–68 (1995) (discussing the waiver of attorney-client privilege that resulted from asserting opinion of counsel letters to avoid willful patent infringement).

65. *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337, 1343 (Fed. Cir. 2004).

66. *Id.* at 1344–47.

67. *Id.* at 1345 (quoting *L.A. Gear, Inc. v. Thom McAn Shoe Co.*, 988 F.2d 1117, 1127 (Fed. Cir. 1993)).

68. See Debra Koker, *Fulfilling the “Due Care” Requirement After Knorr-Bremse*, 11 B.U. J. SCI. & TECH. L. 154, 155 (2005) (“Although the decision upheld the sanctity of the attorney-client privilege, it did not go nearly far enough in informing potential litigants how to shape their behavior.”).

C. *In re Seagate: A Bright Line Test Requiring Objective Recklessness*

Three years after it pulled back on the duty to obtain advice of counsel in *Knorr-Bremse*,<sup>69</sup> the Federal Circuit overruled the affirmative duty from *Underwater Devices* altogether in *Seagate*.<sup>70</sup> *Seagate* held that the *Underwater Devices* standard set too low a bar for enhanced damages.<sup>71</sup> Recognizing that the relevant statutes provide no definition for “willfulness,” the Federal Circuit turned to Supreme Court precedent interpreting the term in the context of punitive damages and determined that willfulness includes “reckless behavior.”<sup>72</sup> According to *Seagate*, the issue with *Underwater Devices* was that its standard allowed enhanced damages for behavior “that is more akin to negligence,” a characterization that “fails to comport with the general understanding of willfulness in the civil context.”<sup>73</sup> *Seagate* also clarified that it was overruling the affirmative duty to seek advice of counsel to avoid enhanced damages.<sup>74</sup>

Building on the idea that “willfulness” included reckless conduct, *Seagate* established what would become known as the two-part test for enhanced damages.<sup>75</sup> It noted that recklessness was defined by the civil law as someone acting “in the face of an unjustifiably high risk of harm that is either known or so obvious that it should be known.”<sup>76</sup> This definition helped establish the two prongs of the test. The first prong required that “a patentee must show by clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent.”<sup>77</sup> With the objective requirement satisfied, the second prong then required that “the patentee . . . demonstrate that this objectively defined risk . . . was either known or so obvious that it should have been known to the accused infringer.”<sup>78</sup>

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69. See *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH*, 383 F.3d at 1344–47 (holding that there was no longer any adverse inference from the failure to obtain the advice of counsel for an infringement defendant).

70. *In re Seagate Tech., LLC*, 497 F.3d 1360, 1371 (Fed. Cir. 2007).

71. *Id.*

72. *Id.* at 1370–71.

73. *Id.* at 1371.

74. *Id.*

75. *Id.*

76. *Id.* (quoting *Farmer v. Brennan*, 511 U.S. 825, 836 (1994)).

77. *Id.*

78. *Id.*

The establishment of an objective recklessness requirement was a significant shift from the previous “totality of the circumstances” doctrine<sup>79</sup> and the affirmative duty of *Underwater Devices*.<sup>80</sup> Members of the patent community predicted that this new standard would make it much more difficult for a plaintiff to prove willful infringement and that courts would be much less likely to award enhanced damages.<sup>81</sup> An empirical study on the effects of *Seagate* found that it actually had a “relatively small” effect on the number of infringements that were held to be willful.<sup>82</sup> Therefore it appears that concerns about the difficulties for patent plaintiffs after *Seagate* were largely overblown.

Although worries about the effects of *Seagate* may have been exaggerated, the objective prong did create a controversial loophole that allowed even potentially willful and malicious defendants to escape enhanced damages.<sup>83</sup> “The state of mind of the accused infringer [was] not relevant” to the objective prong.<sup>84</sup> This meant that even if the accused infringer intentionally copied the patented invention, the objective prong might not be satisfied if its attorney could come up with a reasonable argument at trial that the claims of the patent did not cover their actions or were invalid.<sup>85</sup>

After *Seagate*, the Federal Circuit addressed the appellate review framework applied to the two-part test.<sup>86</sup> The court established that objective recklessness was a mixed question of fact and law and that “the court is in the best position for making the determination of

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79. *Cent. Soya Co. v. Geo. A. Hormel & Co.*, 723 F.2d 1573, 1577 (Fed. Cir. 1983) (quoting *Underwater Devices Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380, 1390 (Fed. Cir. 1983), *overruled by In re Seagate Tech., LLC*, 497 F.3d 1360 (Fed. Cir. 2007)).

80. *See Underwater Devices*, 717 F.2d at 1389–90 (establishing an affirmative duty for a potential infringer to seek the advice of patent counsel once he has “notice of another’s patent rights”).

81. *See* Christopher B. Seaman, *Willful Patent Infringement and Enhanced Damages After In Re Seagate: An Empirical Study*, 97 IOWA L. REV. 417, 431–32 (2012) (discussing practitioner reaction to the establishment of the *Seagate* test).

82. *See id.* at 441 (finding that “willfulness was found in approximately 10% (11.0%) fewer cases” in the first three years after *Seagate*, which was not a statistically significant difference).

83. *See Halo Elecs., Inc. v. Pulse Elecs., Inc.*, 136 S. Ct. 1923, 1933 (2016) (noting that the *Seagate* test makes “the ability of the infringer to muster a reasonable (even though unsuccessful) defense at the infringement trial” dispositive on enhanced damages).

84. *In re Seagate Tech., LLC*, 497 F.3d 1360, 1371 (Fed. Cir. 2007).

85. For further discussion of the loophole in the *Seagate* test, see *supra* notes 10–13 and accompanying text.

86. *Bard Peripheral Vascular, Inc. v. W.L. Gore & Assocs., Inc.*, 682 F.3d 1003, 1006 (Fed. Cir. 2012).

reasonableness.”<sup>87</sup> The objective prong of the test was therefore subject to de novo review, while the subjective prong remained a question for the jury subject to substantial evidence review.<sup>88</sup> However, the ultimate decision of whether to award enhanced damages was still subject to an abuse of discretion standard.<sup>89</sup> This was referred to as the “tripartite framework” by the Supreme Court in *Halo*.<sup>90</sup>

## II. THE *HALO* DECISION: DISMANTLING THE *SEAGATE* STANDARD

In 2016, the Supreme Court again weighed in on enhanced patent damages in *Halo*, reversing nearly all the Federal Circuit doctrine developed in the preceding decade.<sup>91</sup> In *Halo*, the Court rejected the objective prong of the *Seagate* test and replaced it with a standard that put the decision in the discretion of the district court.<sup>92</sup> The Court’s reasoning relied heavily on its prior ruling in *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*,<sup>93</sup> which concerned patent law’s attorney fee shifting statute, 35 U.S.C. § 285.<sup>94</sup> This reliance was misplaced. An independent analysis of enhanced damages doctrine would have allowed the Court to establish a standard that avoided the issues of the *Seagate* test while maintaining certainty and a higher standard for enhanced damages awards. Section A of this Part discusses the Court’s rejection of the objective prong of *Seagate*. Section B discusses the Court’s reliance on its *Octane Fitness* reasoning, and Section C discusses the distinctions between enhanced damages and attorney fee shifting that made such heavy reliance misplaced and inappropriate.

### A. Rejection of the “Overly Rigid” Objective Prong of *Seagate*

*Halo*’s most significant change was rejecting the objective prong of *Seagate* and placing the entirety of enhanced damages decisions within the discretion of the district court.<sup>95</sup> The Court noted that the policy behind the *Seagate* test was actually sound because it

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87. *Id.*

88. *Id.* at 1007–09.

89. *Spectralytics, Inc. v. Cordis Corp.*, 649 F.3d 1336, 1347 (Fed. Cir. 2011).

90. *Halo Elecs., Inc. v. Pulse Elecs., Inc.*, 136 S. Ct. 1923, 1934 (2016).

91. *See id.* at 1932–35 (invalidating the two-part *Seagate* test as well as the tripartite framework for appellate review and the clear and convincing evidence requirement).

92. *Id.*

93. *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749 (2014).

94. *Id.* at 1755–1758.

95. *Halo Elecs., Inc.*, 136 S. Ct. at 1935.

“reflects . . . that enhanced damages are generally appropriate . . . only in egregious cases.”<sup>96</sup> Despite this policy justification, *Halo* found that the test did not allow for the discretion connoted by § 284 and was “unduly rigid” and “insulat[ed] some of the worst patent infringers from any liability for enhanced damages.”<sup>97</sup> Troubled by the loophole created by *Seagate*’s objective prong, the Court condemned the fact that, even for a “wanton and malicious pirate,” a plaintiff must show there was an objectively high likelihood that the defendants’ actions constituted infringement.<sup>98</sup>

The Court emphasized that *Seagate*’s sound policy of limiting enhanced damages had gone too far and was insulating “wanton and malicious pirate[s]” so long as their counsel could come up with a reasonable argument that they were not infringing.<sup>99</sup> The loophole had shifted the focus of the analysis away from the actions and state of mind of defendants while the infringement was happening, and toward the ability of their counsel to come up with arguments at trial.<sup>100</sup> This impeded the deterrent purpose of § 284 to prevent willful and wanton infringement because whether the defendant was willful or malicious might not matter.<sup>101</sup> *Halo* therefore rejected the *Seagate* test and held that the enhanced damages determination lies within the discretion of the trial court, which should “take into account the particular circumstances of each case” and only award enhanced damages in “egregious cases typified by willful misconduct.”<sup>102</sup>

In his concurrence, Justice Breyer emphasized that enhanced damages should be strictly limited to egregious circumstances.<sup>103</sup> He also suggested that defendants did not need to seek the often-expensive advice of patent counsel, but could rely on the advice of a

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96. *Id.*

97. *Id.* at 1932 (quoting *Octane Fitness, LLC*, 134 S. Ct. at 1755).

98. *See Halo Elecs., Inc.*, 136 S. Ct. at 1932 (holding that the objective recklessness requirement “excludes from discretionary punishment many of the most culpable offenders, such as the ‘wanton and malicious pirate’ who intentionally infringes another’s patent” (internal quotation marks omitted) (quoting *Seymour v. McCormick*, 57 U.S. (16 How.) 480, 488 (1853))).

99. *Id.*

100. *See id.* at 1933 (noting that *Seagate* had made “dispositive the ability of the infringer to muster a reasonable (even though unsuccessful) defense at the infringement trial”).

101. *See id.* (noting that “even if [the defendant] did not act on the basis of the defense or was even aware of it,” the defendant could still defeat the objective prong of the *Seagate* test and prevent enhanced damages).

102. *Id.* at 1933–34.

103. *Id.* at 1936 (Breyer, J., concurring).

“scientist, engineer, or technician” that there was no infringement to show good faith and insulate them from enhanced damages.<sup>104</sup>

Following the rejection of the two-part *Seagate* test, *Halo* also rejected the clear and convincing evidence standard the Federal Circuit had applied to enhanced damages determinations.<sup>105</sup> It replaced “clear and convincing” with the typical “preponderance of the evidence” standard for civil cases.<sup>106</sup> *Halo* also struck down the tripartite framework for appellate review that applied to the *Seagate* test<sup>107</sup> and replaced it with an abuse of discretion appellate standard.<sup>108</sup>

This new appellate standard is a major source of the issues created by the *Halo* framework. By failing to announce a reasonably concrete standard for the § 284 analysis and establishing such a deferential standard of review for appeal, *Halo* created an uncertain and less rigorous standard for enhanced damages awards.<sup>109</sup> The reasoning and justification for these changes relied heavily on a recent decision interpreting a different, but in the Court’s view, analogous statute: § 285 attorney fee shifting.<sup>110</sup>

#### B. *Halo’s Reliance on Octane Fitness and § 285 Fee Shifting*

After the Supreme Court’s ruling on the patent law attorney fee shifting statute § 285, commentators predicted that a similar ruling on § 284 enhanced damages would naturally follow.<sup>111</sup> Both statutes involve damages determinations decided by the court, have similar Federal Circuit tests established for them, and do not give much guidance for their application.<sup>112</sup> Therefore it seemed likely that the Court would simply borrow its holding from *Octane Fitness* and apply it to enhanced damages. To a certain degree, that is exactly what the

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104. *Id.*

105. *Id.* at 1934.

106. *Id.*

107. For further discussion of the tripartite framework, see *supra* note 20.

108. *Halo Elecs., Inc.*, 136 S. Ct. at 1934.

109. For further discussion of uncertainty created by *Halo*, see *infra* Part III.

110. For further discussion of *Halo’s* reliance on attorney fee shifting, see *infra* Part II.B.

111. See generally Howard Wisnia & Thomas Jackman, *Reconsidering the Standard for Enhanced Damages in Patent Cases in View of Recent Guidance from the Supreme Court*, 31 SANTA CLARA HIGH TECH. L.J. 461 (2015) (arguing that the Federal Circuit should change the § 284 enhanced damages doctrine following the Supreme Court’s ruling on attorney fee shifting in *Octane Fitness*).

112. Compare 35 U.S.C. § 284 (2012) (stating that the “court may increase the damages up to three times the amount found or assessed”), with § 285 (stating that “[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party”).



Court did in *Halo*. Not only did the Court make similar changes to the enhanced damages framework as it did for attorney fee shifting, but it explicitly relied on its prior decision in *Octane Fitness* to support much of its reasoning in *Halo*.<sup>113</sup>

Section 285 allows courts to award attorneys' fees to the prevailing party in "exceptional" patent infringement cases.<sup>114</sup> Prior to *Octane Fitness*, the Federal Circuit had established a two-part test for when a case was "exceptional"—similar to the *Seagate* test.<sup>115</sup> This test was applied nearly identically to the *Seagate* standard, such that a finding of willfulness under *Seagate* was enough to make a case "exceptional" under § 285.<sup>116</sup>

The Supreme Court rejected the two-part standard for § 285 as "unduly rigid" in *Octane Fitness* because it "superimpose[d] an inflexible framework onto statutory text that is inherently flexible."<sup>117</sup> *Octane Fitness* held that the determination of whether to award attorneys' fees is entirely in the discretion of the district court.<sup>118</sup> In a subsequent case, the Supreme Court held that because of the discretionary nature of § 285 decisions, the abuse of discretion standard of review should be applied on appeal.<sup>119</sup>

*Halo* made multiple mentions of its similarity to *Octane Fitness*, and the "unduly rigid" language used to describe the *Seagate* test is quoted directly from the *Octane Fitness* opinion.<sup>120</sup> It also directly relied on *Octane Fitness* in rejecting the objective prong of the *Seagate* test, the clear and convincing evidence standard, and the "tripartite framework for appellate review."<sup>121</sup> The only qualification given in

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113. See *Halo Elecs., Inc.*, 136 S. Ct. at 1933–34 (rejecting the objective requirement of the *Seagate* test like the Court had rejected the "objectively baseless" requirement for attorney fee shifting in *Octane Fitness* because "subjective bad faith alone" was enough to satisfy the proper standard for both statutes).

114. 35 U.S.C. § 285.

115. See *Brooks Furniture Mfg., Inc. v. Dutailier Int'l, Inc.*, 393 F.3d 1378, 1381 (Fed. Cir. 2005) (requiring that a case was "brought in subjective bad faith" and was "objectively baseless" in order to be exceptional under § 285).

116. See Don Zhe Nan Wang, *End of the Parallel Between Patent Law's § 284 Willfulness and § 285 Exceptional Case Analysis*, 11 WASH. J. L. TECH. & ARTS 311, 319–23 (2016) (discussing the parallel application of the § 285 exceptional case analysis with the § 284 enhanced damages standard before *Octane Fitness*).

117. *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749, 1756 (2014).

118. *Id.* at 1757.

119. *Highmark Inc. v. Allcare Health Mgmt. Sys., Inc.*, 134 S. Ct. 1744, 1749 (2014).

120. *Halo Elecs., Inc. v. Pulse Elecs., Inc.*, 136 S. Ct. 1923, 1932 (2016).

121. See *id.* at 1932–34 (holding that the "recent decision in *Octane Fitness* arose in a different context but points in the same direction" of rejecting the objective prong, that "*Octane Fitness* is

applying the analysis from *Octane Fitness* is that it “arose in a different context.”<sup>122</sup> That “different context” has much more significance than it was given in *Halo*, however.

C. *Halo’s Reliance on Octane Fitness is Misplaced: § 284 Enhanced Damages are Distinct from § 285 Attorney Fee Shifting*

The “different context” of attorney fee shifting noted in *Halo*<sup>123</sup> is distinct from the context of enhanced damages in three ways: the underlying conduct evaluated for its application, its intended scope, and its legislative history. These distinctions show that the reasoning used to analyze § 285 should not have been applied to § 284. *Halo* should have evaluated the doctrinal and policy considerations behind the enhanced damages standard independently of the *Octane Fitness* reasoning. This would have allowed the Court to fashion a solution that more adequately addresses the concerns of enhanced damages without its decision creating the issues that it does.

The first distinction between the attorney fee shifting and enhanced damages statutes is the underlying conduct evaluated in determining whether either statute should apply. In attorney fee shifting, courts are focused on the actions of the parties in the context of litigation brought before them. The Supreme Court’s definition of an “exceptional” case in *Octane Fitness* focuses on whether a case “simply . . . stands out from others with respect to the substantive strength of a party’s litigating position . . . or the unreasonable manner in which the case was litigated.”<sup>124</sup> Section 285 allows courts to sanction a party for bringing nonmeritorious claims or acting unreasonably during litigation, making this provision similar to other common sanctioning powers of federal trial courts.<sup>125</sup>

In contrast, the main focus of the enhanced damages analysis is on the defendant’s commercial actions before the litigation is initiated.<sup>126</sup>

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again instructive” on the clear and convincing evidence standard, and that “[b]ecause *Octane Fitness* confirmed district court discretion to award attorney fees . . . such decisions should be reviewed for abuse of discretion” as should enhanced damages).

122. *Id.* at 1932.

123. *Id.*

124. *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749, 1756 (2014).

125. *See, e.g.*, 28 U.S.C. § 1927 (2012) (allowing the court to award “excess costs, expenses, and attorneys’ fees incurred because of” a party’s vexatious litigation practices); FED. R. CIV. P. 11 (allowing sanctions against a party for making claims in any signed pleading that are not “warranted by existing law” or where the “factual contentions [lack] evidentiary support”).

126. *See Read Corp. v. Portec, Inc.*, 970 F.2d 816, 827 (Fed. Cir. 1992) (establishing factors for determining whether enhanced damages are appropriate such as “whether the infringer, when he

Common issues in the § 284 analysis, such as whether the defendant had notice or knowledge of the patent or whether it obtained an opinion of counsel that it was not infringing, concern actions taken outside of the litigation process.<sup>127</sup> Awarding enhanced damages is therefore unlike the trial court's other sanctioning powers, so the same standard should not necessarily apply.

When determining that the abuse of discretion standard should apply to attorney fee shifting, the Court stressed that “the district court ‘is better positioned’ to decide whether a case is exceptional because it lives with the case over a prolonged period of time.”<sup>128</sup> The district court has firsthand experience with the litigation practices of the parties, which is the basis for the decision under § 285, giving the district court a substantial advantage over a reviewing appellate court. This advantage is significantly diminished in the case of § 284 enhanced damages. There, the district court bases its determination on the defendant's out-of-court conduct as established by the evidence on the record. This means that an appellate court, which bases its review on the record established below, is in a much better position to review an award of enhanced damages than an award of attorneys' fees.

The second distinction between attorney fee shifting and enhanced damages is the intended beneficiaries for each provision. Attorney fee shifting may be awarded to either party,<sup>129</sup> which gives defendants a potential mechanism to deter frivolous patent suits. Despite the creation of some cheaper alternative procedures for invalidating patents by the America Invents Act,<sup>130</sup> defendants may still be forced to incur significant expenses defending against even frivolous claims.<sup>131</sup> This is especially significant in cases brought by nonpracticing

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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” and the “duration of the defendant's misconduct”).

127. *Id.*

128. *Highmark Inc. v. Allcare Health Mgmt. Sys., Inc.*, 134 S. Ct. 1744, 1748 (2014) (footnote omitted) (quoting *Pierce v. Underwood*, 487 U.S. 552, 559–560 (1988)).

129. *See* 35 U.S.C. § 285 (2012) (stating that the court may award fees to the prevailing party, which may be either the plaintiff or the defendant in a given case).

130. One of the procedures created by the America Invents Act was the inter partes review. This allows a patent's validity to be challenged on the grounds of 35 U.S.C. § 102 novelty or 35 U.S.C. § 103 nonobviousness before the Patent Trial and Appeal Board. The Board is then required to give a decision on this challenge within twelve months, which makes this a much faster and cheaper alternative to district court litigation. *See* 35 U.S.C. §§ 311–316 (2012).

131. A survey conducted by the American Intellectual Property Law Association found that in 2015 the median litigation costs for suits with between \$1 million and \$10 million at risk was \$2 million while the median costs for a case with more than \$25 million at risk was \$5 million. *See*

entities because they have more incentives to bring claims “that have just a slim chance of success.”<sup>132</sup> The standard for attorney fee shifting needs to be flexible to allow district courts to deter this type of behavior.<sup>133</sup>

The policy considerations favoring a lower and flexible standard for attorney fee shifting do not apply to § 284. Enhanced damages awards only benefit plaintiffs<sup>134</sup> and are intended to deter defendants from refusing to license a patent because they would otherwise only have to pay reasonable royalty damages if found liable for infringement.<sup>135</sup> Unlike the flexible standard needed for attorney fee shifting, the policy considerations for enhanced damages favor a more rigorous standard, in part because the attorney fee shifting provision already deters some of the conduct enhanced damages are aimed to prevent.<sup>136</sup>

The third distinction between attorney fee shifting and enhanced damages is the legislative history of the respective statutes, particularly with respect to district court discretion. *Octane Fitness* noted that the original statute for attorney fee shifting in patent cases explicitly stated that the decision was “in [the court’s] discretion.”<sup>137</sup> Though the explicit mention of discretion was removed from the statute when it was recodified, the Court found that “the recodification did not substantively alter the meaning of the statute.”<sup>138</sup> This legislative history provided a strong presumption for placing attorney fee shifting

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AM. INTELLECTUAL PROP. LAW ASS’N, REPORT OF THE ECONOMIC SURVEY 2015, at 37 (2015), [https://www.accmeetings.com/AM16/faculty/files/Article\\_482\\_7928\\_LitSpend\\_\\_AIPLA\\_2015\\_Report.pdf](https://www.accmeetings.com/AM16/faculty/files/Article_482_7928_LitSpend__AIPLA_2015_Report.pdf) [<https://perma.cc/C3H8-ACVK>].

132. Nonpracticing entities have an advantage over defendants who actually manufacture products because “they have far fewer documents to produce, fewer witnesses and a much smaller legal bill than a company that does make and sell something.” They also do not have the threat of a counterclaim or harm to their market reputation to deter them from bringing lawsuits that have a low chance of success. See Randall R. Rader, Colleen V. Chien & David Hricik, Opinion, *Make Patent Trolls Pay in Court*, N.Y. TIMES, June 5, 2013, at A25.

133. *Id.*

134. Enhanced damages are only available after compensatory damages have already been assessed to a prevailing claimant. 35 U.S.C. § 284.

135. For further discussion of the purposes of enhanced damages, see *supra* notes 48–49 and accompanying text.

136. For further discussion of need of a rigorous standard for enhanced damages determinations, see *infra* Part III.B.

137. *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749, 1753 (2014) (quoting 35 U.S.C. § 70 (1946) (codified as amended at 35 U.S.C. § 285 (2012))).

138. *Id.*

decisions in the discretion of the district court in *Octane Fitness*,<sup>139</sup> which is what led to abuse of discretion standard of review being applied in *Highmark*.<sup>140</sup>

The legislative history of § 284 lacks this explicit language about district court discretion. Although the 1836 revision made enhanced damages awards discretionary in the sense that they were no longer mandated when a plaintiff prevailed,<sup>141</sup> it did not include an explicit statement that the decision was in the discretion of the district court. Taken alone, the absence of such language does not show that the abuse of discretion standard of review is inappropriate here, but it does make it inappropriate for *Halo* to simply apply the reasoning from the § 285 analysis to enhanced damages.<sup>142</sup>

The distinctions between enhanced damages and attorney fee shifting illustrate why it was inappropriate for the *Halo* Court to rely on the *Octane Fitness* and *Highmark* decisions when determining the new standard for enhanced damages. If *Halo* had analyzed § 284 independently of attorney fee shifting, it would have been better able to formulate a more balanced framework. This framework could have avoided both the rigidity of *Seagate* and the uncertainty and lowered standard created by *Halo*. The following section will focus on these two effects of the *Halo* decision.

### III. THE HALO FRAMEWORK CREATES AN UNCERTAIN AND LESS RIGOROUS STANDARD FOR ENHANCED DAMAGES AWARDS

While the *Seagate* test created the loophole that allowed even willful and malicious infringers to escape enhanced damages,<sup>143</sup> it also established a clear framework for how the § 284 analysis was applied.<sup>144</sup> When *Halo* rejected the *Seagate* test, it not only got rid of the loophole,

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139. *Id.*

140. See *Highmark Inc. v. Allcare Health Mgmt. Sys., Inc.*, 134 S. Ct. 1744, 1748 (2014) (holding that “an appellate court should review all aspects of a district court’s § 285 determination for abuse of discretion” based on the holding in *Octane Fitness*).

141. For further discussion of the shift from mandatory to discretionary enhanced damages, see *supra* notes 45–46 and accompanying text.

142. For further discussion of *Halo*’s reliance on its reasoning from *Octane Fitness*, see *supra* notes 120–22 and accompanying text.

143. For further discussion of the loophole created by *Seagate*, see *supra* notes 10–13 and accompanying text.

144. See *In re Seagate Tech., LLC*, 497 F.3d 1360, 1371 (Fed. Cir. 2007) (requiring an objectively high likelihood that the defendant was infringing and that the risk of infringement was either “known or so obvious that it should have been known” to the defendant for enhanced damages to be awarded).

but it also got rid of the clarity and predictability that *Seagate* had brought to the enhanced damages analysis.

*Halo* places the decision of awarding enhanced damages within the discretion of the district court, but it does not establish a concrete test beyond “tak[ing] into account the particular circumstances of each case” and limiting enhanced damages to “egregious cases typified by willful misconduct.”<sup>145</sup> This standard does little to advise potential defendants about conduct that could subject them to trebled infringement damages. Coupling this uncertain standard with the abuse of discretion appellate review<sup>146</sup> could prevent meaningful review by the Federal Circuit and lead to a lowered standard for enhanced damages in practice.

A. *The Lack of a Concrete Standard in Halo Injects Innovation-Chilling Uncertainty into the Enhanced Damages Framework*

The Federal Circuit’s *Knorr-Bremse* decision—which eliminated the adverse inference from claiming attorney-client privilege but maintained an affirmative duty to avoid infringing known patent rights<sup>147</sup>—was criticized for not giving enough guidance to parties on how to act to avoid enhanced damages.<sup>148</sup> Those same criticisms apply with equal force to *Halo*. As one practitioner noted, “[t]he practical issue is predicting where the line will ultimately fall between typical infringement and egregious cases, as well as what an accused infringer should do . . . to be on the safe side of that line.”<sup>149</sup> Although *Halo* has successfully done away with the rigidity that doomed the *Seagate* test,<sup>150</sup> it gives little to no guidance for how judges should now decide these cases or how parties should act to avoid enhanced damages.

*Halo* cautioned that the discretion it granted district courts should be limited to “egregious” cases,<sup>151</sup> but what is egregious in the context

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145. *Halo Elecs., Inc. v. Pulse Elecs., Inc.*, 136 S. Ct. 1923, 1933–34 (2016).

146. *See id.* at 1934 (establishing that abuse of discretion appellate review shall be applied to enhanced damages determinations).

147. *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337, 1347–48 (Fed. Cir. 2004).

148. For a further discussion of criticisms of the *Knorr-Bremse* decision, see *supra* Part I.B.

149. *Attorneys React to High Court’s Patent Damages Ruling*, LAW360 (June 13, 2016, 6:52 PM), <https://www.law360.com/articles/806367/attorneys-react-to-high-court-s-patent-damages-ruling> [<https://perma.cc/HZV7-6FC8>] (quoting Terry L. Clark, Bass Berry & Sims PLC).

150. *See Halo Elecs., Inc.*, 136 S. Ct. at 1932 (overruling the two-part *Seagate* test because it was “unduly rigid”).

151. *Id.* at 1934.

of patent infringement is not self-defining. There may be cases where it is clear the alleged infringer was a “wanton and malicious pirate,” making enhanced damages clearly appropriate under *Halo*.<sup>152</sup> There will also be cases where egregiousness is far from clear, such as a case where the defendant had knowledge of the patent and did not seek the advice of counsel, but had independently developed the technology and lacked malicious intent, such as using its cost advantage in avoiding licensing fees to drive out a competitor who had licensed the technology. With a punishment as harsh as trebling damages in an area of law where damages are already notoriously high,<sup>153</sup> an unclear standard is particularly troubling.

It is also unclear whether and to what extent egregiousness is necessary for an award of enhanced damages under *Halo*. Language in the majority opinion stating that enhanced damages are “*generally* appropriate” and “*should generally*” be granted only in egregious circumstances<sup>154</sup> creates this uncertainty. Although Justice Breyer’s concurrence attempts to clarify that this language is more mandatory than precatory,<sup>155</sup> the limited precedential value of a concurrence limits its effectiveness. This uncertainty has already taken concrete form in district courts applying *Halo*, with a split developing over whether a plaintiff must plead egregiousness as part of a claim for enhanced damages.<sup>156</sup>

The lack of clarity in the *Halo* standard is compounded by the abuse of discretion appellate review that will apply to all enhanced damages decisions.<sup>157</sup> This standard is highly deferential to the district court.<sup>158</sup> While empirical studies have shown that the relationship

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152. See *id.* at 1932 (noting that the “wanton and malicious pirate” is among the “most culpable offenders,” suggesting enhanced damages would clearly be appropriate for such a defendant (internal quotation marks omitted) (quoting *Seymour v. McCormick*, 57 U.S. (16 How.) 480, 488 (1853))).

153. A patent litigation study conducted by PricewaterhouseCoopers LLP found that the median patent damages award from 2011–2015 was \$7.3 million. CHRIS BARRY ET AL., PRICEWATERHOUSECOOPERS LLP, 2016 PATENT LITIGATION STUDY: ARE WE AT AN INFLECTION POINT? 4 (2016), <https://www.pwc.com/us/en/forensic-services/publications/assets/2016-pwc-patent-litigation-study.pdf> [<https://perma.cc/5G3E-WCSS>].

154. *Halo Elecs., Inc.*, 136 S. Ct. at 1932–34 (emphasis added).

155. *Id.* at 1936.

156. Leh & Silhasek, *supra* note 18.

157. *Halo Elecs., Inc.*, 136 S. Ct. at 1934.

158. See *Cooter & Gell v. Hartmax Corp.*, 496 U.S. 384, 405 (1990) (requiring that a court “based its ruling on an erroneous view of the law or on a clearly erroneous assessment of the evidence” to be reversed for an abuse of discretion); see also Kevin Casey, Jade Camara & Nancy Wright, *Standards of Appellate Review in the Federal Circuit: Substance and Semantics*, 11 FED.

between standard of review and reversal rates is more nuanced than expected,<sup>159</sup> the deferential nature of abuse of discretion review could potentially restrict meaningful review by the Federal Circuit, preventing it from giving shape to what constitutes an egregious case. Under an abuse of discretion review, an appellate court can only overturn the district court “if it based its ruling on an erroneous view of the law or on a clearly erroneous assessment of the evidence.”<sup>160</sup> Two different district courts could have substantially different interpretations of egregiousness under this standard without either interpretation constituting an “erroneous view of the law” or being a “clearly erroneous assessment of the evidence.”<sup>161</sup>

In fact, a divergence in the application by district courts has already emerged, with some courts requiring plaintiffs to plead egregiousness to make out a claim for enhanced damages and others not.<sup>162</sup> One article analyzing district court decisions in the first six months following the *Halo* decision found a division in the pleading required for an allegation of willful infringement.<sup>163</sup> The article noted that some courts held that simply pleading that the defendant had knowledge of the patent was sufficient, while other courts, typically citing Justice Breyer’s concurrence, required a pleading of egregiousness as well.<sup>164</sup> Under the abuse of discretion standard of review, the Federal Circuit will likely be unable to reestablish uniformity in these types of situations.

Though some uncertainty in the law is unavoidable, uncertainty in the context of patent law is especially harmful because it can

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CIR. B. J. 279, 286 (2002) (noting that the abuse of discretion standard is “[t]he most lenient standard of review”).

159. Although the Supreme Court has made clear that the abuse of discretion standard “does not preclude an appellate court’s correction of a district court’s legal or factual error,” the high level of deference built into this standard will allow a large amount of variation in what constitutes an egregious case by the district courts. *Highmark Inc. v. Allcare Health Mgmt. Sys., Inc.*, 134 S. Ct. 1744, 1749 n.2 (2014). Empirical studies have shown that standards of review may affect the outcome of cases, but the relationship is the subject of ongoing debate. See Jeffrey C. Dobbins, *Changing Standards of Review*, 48 LOY. U. CHI. L.J. 205, 229–32 (2016) (reviewing several empirical studies); see also Robert Anderson IV, *Law, Fact, and Discretion in the Federal Courts: An Empirical Study*, 2012 UTAH L. REV. 1, 24–25 (conducting an empirical study and finding the relationship between standards of review and case outcomes is more nuanced than expected).

160. *Cooter & Gell*, 496 U.S. at 405.

161. *Id.*

162. Leh & Silhasek, *supra* note 18.

163. *Id.*

164. *Id.*



undermine innovation.<sup>165</sup> This is illustrated by the very creation of the Federal Circuit, which acts as the singular forum for patent appeals in hopes of bringing uniformity and certainty to patent law.<sup>166</sup> Therefore a standard that injects as much uncertainty into the law as *Halo* should be avoided unless plainly called for by Congress. This Note does not propose that the *Seagate* test was the appropriate framework; however, the uncertain *Halo* standard is not the only alternative. A rule that avoids rigidity while maintaining clarity for both the judges who apply it and the parties it is applied to would be superior to both the *Seagate* and *Halo* approaches.

*B. Halo's Abuse of Discretion Appellate Review Effectively Lowers the Standard for Enhanced Damages Awards*

In addition to generating the uncertainty discussed above, another issue with the *Halo* framework is that it will likely make it much easier for plaintiffs to obtain enhanced damages.<sup>167</sup> This is troubling because shifts in the modern patent law landscape show that the standard for enhanced damages should be a high bar, reserved only for extreme cases. The Supreme Court recognized this principle somewhat in *Halo* itself, reemphasizing that enhanced damages were only warranted in egregious circumstances.<sup>168</sup> Though this appears to set a high bar for the *Halo* standard, the deferential abuse of discretion review prevents the Federal Circuit from ensuring that it remains that way in practice. This Section will discuss three aspects of modern patent law that illustrate why *Halo* erred in failing to providing a practical method for maintaining a high standard for enhanced damages awards.

First, counter to the fear that juries would be anti-patent, which led to the first enhanced damages provision in the Patent Act of 1793,<sup>169</sup> modern juries are actually pro-patent.<sup>170</sup> A study conducted by jury

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165. For further discussion on the importance of certainty in patent law, see *supra* notes 21–23 and accompanying text.

166. For further discussion on the creation of the Federal Circuit, see *supra* note 56.

167. See *Attorneys React to High Court's Patent Damages Ruling*, *supra* note 149 (many of the practicing attorneys interviewed expressed the opinion that it will be much easier for plaintiffs to win enhanced damages following the *Halo* decision).

168. For further discussion on *Halo's* emphasis on granting enhanced damages only in egregious circumstances, see *supra* note 102 and accompanying text.

169. For further discussion on the enhanced damages provision in the Patent Act of 1793, see *supra* notes 40–43 and accompanying text.

170. See Casey Anderson & Chuck Kauffman, *Why US Juries are Pro-Plaintiff*, *MANAGING INTELL. PROP.*, Feb. 2009, at 42, 42 (noting that a recent study found that plaintiffs won more than

consultants Chuck Kauffman and Casey Anderson found that jurors have a high regard for the inventors and the Patent and Trademark Office and believe the review process for obtaining a patent is thorough and rigorous.<sup>171</sup> Sixty-six percent of mock jurors participating in the study supported the patent owner after they were given a neutral statement of facts without any argument or evidence from either side.<sup>172</sup> With jurors favoring patent holders in this way, the added incentive of enhanced damages is unnecessary to convince inventors to disclose their work through the patent system.

The second factor counseling for a high standard for enhanced damages awards is the possibility of parties recovering attorney fees in “exceptional” cases under § 285.<sup>173</sup> The possibility of attorney fee recovery lessens the need for the deterrent purpose of enhanced damages noted in the 1946 amendment.<sup>174</sup> Even without enhanced damages, if a defendant refuses to negotiate for a license because they only will have to pay reasonable royalty damages, they might still be liable for the plaintiff’s attorneys’ fees if the substantive strength of their case is exceptionally weak.<sup>175</sup> Therefore, parties are deterred from an “infringe now, pay later” strategy even without the threat of § 284 because attorney fees in patent litigation suits are often substantial.<sup>176</sup> Though there is still an added deterrent effect from enhanced damages, the availability of another deterrent mechanism lowers the need for reliance on enhanced damages and favors only applying it in extreme cases.

The third factor weighing in favor of a rigorous § 284 standard is the emergence of firms that “generate revenue by sending letters to ‘tens of thousands of people asking for a license or settlement’ on a

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63 percent of patent infringement jury trials and discussing the various factors for juries’ pro-patent tendencies).

171. *Id.* at 43.

172. *Id.* at 42.

173. *See* 35 U.S.C. § 285 (2012) (“The court in exceptional cases may award reasonable attorney fees to the prevailing party.”); *see also* *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749, 1756 (2014) (holding that an “exceptional” case for the purposes of § 285 fee shifting is “simply one that stands out from others with respect to the substantive strength of a party’s litigation position . . . or the unreasonable manner in which the case was litigated”).

174. For further discussion of the deterrent purposes of the 1946 amendment to § 284, see *supra* note 48 and accompanying text.

175. *See Octane Fitness, LLC*, 134 S. Ct. at 1756 (holding that a case may be “exceptional” for the purpose of § 285 attorney fee shifting if it “stands out from others with respect to the substantive strength of a party’s litigation position”).

176. For further discussion of the cost of attorneys’ fees in patent litigation cases, see *supra* note 131.

patent “that may in fact not be warranted.”<sup>177</sup> Justice Breyer’s concurrence in *Halo* touches on this problem, noting that “the risk of treble damages can encourage [a] company to settle, or even abandon any challenged activity” when it receives one of these letters.<sup>178</sup> It will likely cost the company “considerable time, effort, and money obtaining expert views about whether some or all of the patents described in the letter apply to its activities” in order to avoid the possibility of trebled damages.<sup>179</sup> Maintaining a rigorous standard for enhanced damages would limit the impact of this type of activity because innovators could navigate these scenarios more confidently. They would not be concerned with facing trebled damages in every case of infringement where they had some notice of the patent.

The abuse of discretion appellate review established in *Halo*<sup>180</sup> prevents the Federal Circuit from ensuring that the standard for awarding enhanced damages remains as high as the three above factors indicate that it should. Under *Halo*, a district court judge may award enhanced damages against a defendant whose conduct falls short of the high bar that is appropriate for modern patent law, but the Federal Circuit would likely be unable to correct this error. The abuse of discretion standard of review only allows them to reverse when the ruling below is based on “an erroneous view of the law or on a clearly erroneous assessment of the evidence.”<sup>181</sup> This deferential review coupled with the lack of concrete factors for the analysis means that only the most outlandish enhanced damages awards would fall within the Federal Circuit’s ability to correct. The outlandish decisions are not the only ones that can chill innovation. Awarding enhanced damages when the defendant’s conduct is only slightly below the appropriate standard would erode it over time, and the inability of the Federal Circuit to correct these decisions could lead to a much lower standard being applied to the § 284 analysis.

Though *Halo* was right to reject the objective prong of *Seagate* for shifting the focus of the § 284 analysis away from the defendant’s conduct at the time of infringement, *Halo*’s alternative solution poses significant issues as well. A framework that avoids the rigidity and

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177. *Halo Elecs., Inc. v. Pulse Elecs., Inc.*, 136 S. Ct. 1923, 1937 (2016) (quoting Brief for Internet Companies as Amici Curiae Supporting Respondents at 12, *Halo Elecs., Inc.*, 136 S. Ct. 1923 (Nos. 14-1513, 14-1520), 2016 WL 344490).

178. *Id.*

179. *Id.*

180. *Id.* at 1934.

181. *Cooter & Gell v. Hartmax Corp.*, 496 U.S. 384, 405 (1990).

focus shifting issues of *Seagate* as well as the uncertainty and lowered standard issues of *Halo* would be a superior approach. The following section lays out a framework that would accomplish this.

#### IV. AN ALTERNATIVE SOLUTION: ESTABLISHING EGREGIOUSNESS AS AN INDEPENDENT ELEMENT OF THE § 284 ENHANCED DAMAGES FRAMEWORK

To avoid the issues of both *Seagate* and *Halo*, the Federal Circuit should adopt a standard for § 284 that makes a finding of egregiousness an independent element required for awarding enhanced damages. Like it did for nonobviousness determinations,<sup>182</sup> the court should classify egregiousness as a mixed question of law and fact, applying clear error review to any factual determinations made below, but applying a de novo standard of review to the overall legal determination of egregiousness. Determining that infringement was willful should also remain a required element that is a question of fact for the jury, reviewable for substantial evidence as it was before *Halo*.<sup>183</sup> The ultimate decision of whether to award enhanced damages after establishing that infringement was both willful and egregious should remain within the discretion of the district court and therefore be subject to an abuse of discretion review. The deferential aspect of this standard makes it consistent with *Halo* in that enhanced damages are not required even “follow[ing] a finding of egregious misconduct.”<sup>184</sup>

This proposed standard would therefore create a tripartite appellate review framework similar to that applied to the *Seagate* test.<sup>185</sup> The key difference is that it focuses the analysis on the conduct of the defendant at the time of infringement and not on whether defendants’ attorneys could come up with a reasonable argument at trial. Under this standard, before a district court judge could award a successful plaintiff enhanced damages under § 284, she would first have to make independent findings that the defendant’s infringement was egregious. The judge would still have the discretion not to award

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182. For further discussion of the standard the classification of nonobviousness determinations as a mixed question of fact and law, see *supra* note 31.

183. See *Bard Peripheral Vascular, Inc. v. W.L. Gore & Assocs., Inc.*, 682 F.3d 1003, 1006 (Fed. Cir. 2012) (noting that “willfulness ultimately presents a question of fact”).

184. *Halo Elecs., Inc.*, 136 S. Ct. at 1933.

185. For further discussion of the tripartite framework applied to the *Seagate* standard, see *supra* note 20.

enhanced damages even if the willful and egregious elements were met, if the circumstances of the case did not make them appropriate.

This standard differs from the current *Halo* framework in two ways: the requirement of egregiousness as an element of the § 284 analysis and the standard of review applied to that element. Both of these differences contribute to avoiding the principal issues created by *Halo*, namely, the uncertainty it generated and its lowered standard for awarding enhanced damages.<sup>186</sup>

*A. Requiring Egregiousness as an Independent Element for § 284 to Bring Clarity to the Enhanced Damages Analysis*

Requiring that infringement be egregious before enhanced damages are awarded is consistent with *Halo*.<sup>187</sup> The majority notes that enhanced damages “should generally be reserved for egregious cases typified by willful misconduct.”<sup>188</sup> Justice Breyer’s concurrence also stresses that because of the “patent-related risks” created by enhanced damages, courts must “ensure that they only target cases of egregious misconduct.”<sup>189</sup> By making egregiousness an explicit element for enhanced damages awards, this proposed standard clarifies that this language establishes a mandatory requirement before a district court can exercise its discretion to treble damages.

There are two issues with *Halo*’s approach to egregiousness. The first is that it is unclear what its language actually requires of both parties and courts applying § 284. The division in pleading standards emerging in district courts since *Halo* shows the effects of this uncertainty and has already created separate standards for parties depending on the district in which the suit is brought.<sup>190</sup> The second issue is that egregiousness is not a self-defining term, and it is unclear what it means in the context of willful patent infringement. Even if a district court interprets *Halo* as requiring it to find that infringement was egregious before awarding enhanced damages, it is not clear what

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186. For further discussion of issues created by *Halo*, see *supra* Part III.

187. See *Halo Elecs., Inc.*, 136 S. Ct. at 1934 (noting that “enhanced damages are generally appropriate under § 284 only in egregious cases”).

188. *Id.* at 1934.

189. *Id.* at 1938 (Breyer, J., concurring).

190. For further discussion of the emergence of separate pleading standards for enhanced damages, see *supra* note 162 and accompanying text.

egregious infringement looks like for any particular defendant except a “wanton and malicious pirate.”<sup>191</sup>

Requiring a finding of egregiousness as an element would address both of the issues with *Halo*'s approach. It would clarify that the court must make an explicit finding of egregiousness before it could award enhanced damages, which would settle part of the uncertainty that currently exists.<sup>192</sup> It would also allow the Federal Circuit to develop a multifactor analysis for determining when a defendant's infringement was egregious, using factors similar to those outlined in *Read Corp.*<sup>193</sup> Clearly establishing that district courts should consider factors such as “whether the infringer deliberately copied the ideas or design of another,” the “closeness of the case,” the “duration of defendant's misconduct,” “remedial action by defendant,” and the “defendant's motivation for harm,”<sup>194</sup> among others, would guide courts applying the enhanced damages analysis and help maintain uniformity throughout different districts. It would also assist defendants in avoiding the type of egregious behavior enhanced damages are meant to deter, and it would give plaintiffs guidance on how to actually prove egregious conduct by the defendant.

In addition, this approach would not create the same rigidity issues as the objective prong of the *Seagate* standard.<sup>195</sup> The *Seagate* standard “insulat[ed] some of the worst patent infringers” because they could avoid enhanced damages if they could come up with a reasonable argument that it was not objectively likely that they were infringing.<sup>196</sup> It did not matter whether the infringer had “act[ed] on the basis of the defense or was even aware of it” at the time of the infringement.<sup>197</sup> Requiring egregiousness as an element would not create this loophole

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191. See *Halo Elecs., Inc.*, 136 S. Ct. at 1932 (noting that a major issue with the *Seagate* test was that it prevented enhanced damages from being awarded against some “wanton and malicious pirate[s]” who are the “most culpable” patent infringers (internal quotation marks omitted) (quoting *Seymour v. McCormick*, 57 U.S. (16 How.) 480, 488 (1853))).

192. For further discussion of the uncertainty developing under *Halo*, see *supra* note 18 and accompanying text.

193. For further discussion of the *Read Corp.* factors, see *supra* note 61 and accompanying text.

194. *Read Corp. v. Portec, Inc.*, 970 F.2d 816, 827 (Fed. Cir. 1992).

195. See *Halo Elecs., Inc.*, 136 S. Ct. at 1932 (holding that *Seagate* was overly rigid because “a district court may not even consider enhanced damages for such a [wanton and malicious] pirate, unless . . . his infringement was ‘objectively’ reckless”).

196. *Id.* at 1933 (noting that the *Seagate* test “mak[es] dispositive the ability of the infringer to muster a reasonable (even though unsuccessful) defense at the infringement trial”).

197. *Id.*

because subjective bad faith by the infringer could be enough to make infringement egregious. Although the Federal Circuit could establish that an objective likelihood that the defendant was infringing is an aggravating factor in determining if infringement was egregious, it would not be rigidly required, so this standard would not mirror the issues of the *Seagate* test.

*B. Classifying Egregiousness as a Question of Law to Maintain a High Standard for Enhanced Damages Awards*

The second distinction of the proposed standard, applying de novo appellate review to the legal determination of egregiousness, also helps avoid both the uncertainty and the lower standard created by *Halo*. *Halo* relies on the “[n]early two centuries of exercising discretion in awarding enhanced damages” to ensure that enhanced damages are granted only in egregious cases.<sup>198</sup> Changes to the patent landscape over the course of those two centuries makes reliance on past cases of discretion unavailing.<sup>199</sup> Enhanced damages may not be appropriate in a case arising today when they would have been appropriate if that case took place thirty years ago. Also, modern policy considerations favor maintaining a high standard for awarding enhanced damages in patent cases, but the current abuse of discretion appellate review could prevent the Federal Circuit from ensuring that the standard remains high.<sup>200</sup>

Applying de novo appellate review to the egregiousness element would allow the Federal Circuit to make sure that only infringement that is egregious in the context of the modern patent landscape is the basis for enhanced damages awards. The Federal Circuit is a specialized court that is well positioned to consider and apply patent policy considerations,<sup>201</sup> so this power is more appropriate for the Federal Circuit than for district courts.

Unlike abuse of discretion review, which requires that the district court “based its ruling on an erroneous view of the law or on a clearly

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198. *Id.* at 1934.

199. For further discussion of the issues with the abuse of discretion standard of review applied to enhanced damages determinations, see *supra* Part III.B.

200. For further discussion of the effect of the abuse of discretion standard of review, see *supra* Part III.B.

201. The Federal Circuit was established as the sole venue for patent law appeals in hopes of creating “[g]reater certainty and predictability” in patent law which “would foster technological growth and industrial innovation.” Rochelle Cooper Dreyfuss, *The Federal Circuit: A Case Study in Specialized Courts*, 64 N.Y.U. L. REV. 1, 6–7 (1989).

erroneous assessment of the evidence”<sup>202</sup> to be overturned, de novo review would allow the Federal Circuit to independently assess the egregiousness finding made below.<sup>203</sup> Though this may be more time and resource intensive than abuse of discretion review, the impact that a trebled damages award can have justifies this added expense. Also, the Federal Circuit is already well versed in applying this type of review to other contexts of patent law,<sup>204</sup> which helps mitigate the effect of the added expense. De novo review also helps prevent cases where a district court awarded enhanced damages when infringement was not actually egregious, but the decision did not violate the highly deferential abuse of discretion standard.<sup>205</sup>

In his *Halo* concurrence, Justice Breyer notes that he believes the Federal Circuit may still “take advantage of its own experience and expertise in patent law” in applying the abuse of discretion review.<sup>206</sup> This statement, however, does not assuage the concerns with the abuse of discretion standard noted above. First, the limited precedential value of a concurrence limits its effectiveness. Second, the abuse of discretion review must be considered in context with the uncertainty of the *Halo* standard.<sup>207</sup> So, although Justice Breyer does point out one instance where there may be an abuse of discretion—when a district court makes an error as to “the reasonableness of a defense that may be apparent from the face of [a] patent”<sup>208</sup>—the law under *Halo* is not clear enough to determine that a district court based its determination on an “erroneous view of the law” in most instances.<sup>209</sup> For example, it is not clear that *Halo* requires a district court to even consider the reasonableness of defenses that Justice Breyer mentions, so it may not be an “erroneous view of the law”<sup>210</sup> for a district court to award enhanced damages without undertaking that analysis in the first place.

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202. *Cooter & Gell v. Hartmax Corp.*, 496 U.S. 384, 405 (1990).

203. See *Casey et al.*, *supra* note 158, at 285 (noting that when the Federal Circuit applies de novo review it “will reach its own conclusion on the issue ‘without deference to that of the district court’” (quoting *Pall Corp. v. Micron Separations, Inc.*, 66 F.3d 1211, 1216 (Fed. Cir. 1995))).

204. For a discussion of the Federal Circuit’s interpretation of 35 U.S.C. § 103 (2012), see *supra* note 31.

205. See *Cooter & Gell*, 496 U.S. at 405 (requiring that a district court must have “based its ruling on an erroneous view of the law or on a clearly erroneous assessment of the evidence” to be overturned for abuse of discretion).

206. *Halo Elecs., Inc. v. Pulse Elecs., Inc.*, 136 S. Ct. 1923, 1938 (2016) (Breyer, J., concurring).

207. For further discussion of the uncertainty of the *Halo* standard, see *supra* Part III.A.

208. *Halo Elecs., Inc.*, 136 S. Ct. at 1938 (Breyer, J., concurring).

209. *Cooter & Gell*, 496 U.S. at 405.

210. See *id.*



This highlights the importance of both differences of the proposed standard in fixing the issues with the *Halo* framework.

This Note's proposed standard also would retain the flexibility and respect for district court discretion emphasized in *Halo*<sup>211</sup> by keeping the ultimate decision of whether to award enhanced damages in the discretion of the district court. Even if infringement was found to satisfy the willful and egregious elements of the proposed standard, the district court still would have the discretion to refuse trebling damages, taking into consideration both the punitive and deterrent purposes of § 284.<sup>212</sup> This is consistent with *Halo*'s assertion that “none of this [opinion] is to say that enhanced damages must follow a finding of egregious misconduct.”<sup>213</sup>

Preserving the discretion of district courts also makes this standard consistent with at least a narrow reading of *Halo*.<sup>214</sup> This means that this standard could be adopted by the Federal Circuit directly, without the Supreme Court overruling *Halo*, which makes it a much more practical option. Issues caused by the uncertainty of the *Halo* standard, such as the division in pleading standards that has already developed in the district courts,<sup>215</sup> are likely to come up on appeal to the Federal Circuit. Those cases would give the court the opportunity to establish this standard and bring clarity to the § 284 doctrine.

One of the primary purposes for creating the Federal Circuit as the sole venue for patent law appeals was maintaining uniformity and

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211. See *Halo Elecs., Inc.*, 136 S. Ct. at 1933–34 (majority opinion) (holding that “[§] 284 permits district courts to exercise their discretion in a manner free from the inelastic constraints of the *Seagate* test”).

212. For further discussion of the purposes of § 284, see *supra* notes 48–49 and accompanying text.

213. *Halo Elecs., Inc.*, 136 S. Ct. at 1933.

214. The Federal Circuit could interpret *Halo* as requiring that the ultimate decision to award enhanced damages be left to the discretion of the district courts and subject to discretionary review as well as precluding any rigid test focusing on the objective nature of the infringer's actions as opposed to its subjective intent. See *id.* at 1932–34 (holding that the *Seagate* test was “unduly rigid” because of the requirement of the objective prong and that § 284 “gives district courts discretion in meting out enhanced damages,” so “that decision is to be reviewed on appeal for abuse of discretion” (internal quotation marks omitted) (quoting *Highmark Inc. v. Allcare Health Mgmt. Sys., Inc.*, 134 S. Ct. 1744, 1748 (2014))). The standard proposed here is consistent with both of those aspects of *Halo* because the egregiousness element does not require objective recklessness and the ultimate decision remains in the discretion of the district courts.

215. For further discussion of the emergence of different pleading standards for enhanced damages, see *supra* note 162 and accompanying text.

clarity in patent law,<sup>216</sup> so a standard that furthers this purpose is preferable to one that precludes it. The Supreme Court explicitly recognized the importance of this policy consideration in the context of patent claim construction,<sup>217</sup> and there is no reason why it would have less relevance in the § 284 analysis. Particularly because the solution proposed here would allow the Federal Circuit to accomplish this purpose while avoiding the pitfalls of the *Seagate* standard and staying consistent with *Halo*, it should be adopted by the Federal Circuit.

### CONCLUSION

The enhanced damages provision of § 284 can be a powerful tool to deter and punish wanton and malicious patent infringement. If the provision is not applied with a proper standard, it can also deter innovation and technological progress. The Supreme Court rightly struck down the *Seagate* test for its rigid focus on objective recklessness, a feature which created a loophole for defendants who otherwise should have been liable for enhanced damages.<sup>218</sup> In doing so it undermined the Federal Circuit's ability to achieve one of its founding purposes: to maintain uniformity and certainty in patent law. It also prevented the Federal Circuit from ensuring an appropriately rigorous standard for enhanced damages awards.

The solution proposed here gives the Federal Circuit the ability to achieve both of the above goals more effectively through de novo review of the new element of egregiousness. This element would act as a required benchmark that plaintiffs must meet for a district court to exercise its discretion in awarding enhanced damages. Unlike the objective recklessness benchmark of the *Seagate* test, this element would appropriately focus on the actions of the defendant at the time the infringement was taking place, and not on the ability of their counsel to muster arguments at trial. Given these advantages and the fact that it is consistent with a narrow reading of *Halo*, the Federal

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216. See H.R. REP. NO. 97-312, at 20–23 (1981) (describing how a “single court to hear patent appeals” would increase uniformity in patent law).

217. *Markman v. Westview Instruments, Inc.*, 517 U.S. 370, 390 (1996) (noting that “Congress created the Court of Appeals for the Federal Circuit as an exclusive appellate court for patent cases” to bring “desirable uniformity” to patent law).

218. For further discussion of the loophole created by the *Seagate* test, see *supra* notes 99–102 and accompanying text.

Circuit should adopt this new framework for enhanced damages, restoring clarity and consistency to this area of law.