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Halo and Its Aftermath—What’s Changed for Willful Infringement

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AGENDA

- Background
- Halo v. Pulse (S. Ct. 2016)
- Federal Circuit Decisions
- District Ct. Decisions
- Additional Thoughts and Possible Implications

BACKGROUND

- In re Seagate (Fed. Cir. 2007)
  - 2 part “willfulness” test - patent owner must show:
    - An objectively high likelihood that infringer’s actions constituted patent infringement, and
    - Under the circumstances, the infringer knew or should have known of the risk of infringement. (subjective prong)
  - “Clear and convincing” was the evidentiary standard used
- In view of Seagate, subsequent Fed. Cir. decisions further stated “‘Objective recklessness will not be found’ at this first step if the accused infringer, during the infringement proceedings, ‘raise[s] a ‘substantial question’ as to the validity or noninfringement of the patent.’”
  - “That categorical bar applies even if the defendant was unaware of the arguable defense when he acted.”

HALO v. PULSE (S. CT., 2016)

- Dist. Ct. (Halo)
  - Jury found high probability of willful infringement
  - Judge declined to award enhanced damages “after determining that [defendant] had at trial presented a defense [an unsuccessful obviousness defense…] that ‘was not objectively baseless, or a sham.’”
    - Failed to show “objective recklessness”
Fed. Cir. affirmed

Sister case: *Stryker v. Zimmer*

Dist. Ct.
- Jury heard testimony that Zimmer had “all-but instructed its design team to copy Stryker’s products.”
  - Found willful infringement
- Judge trebled the damages

Fed. Cir.
- Affirmed infringement but vacated the treble damages
  - Applying *de novo* review, concluded enhanced damages unavailable because “Zimmer had asserted ‘reasonable defenses’ at trial.”

Supreme Ct. Decision (*Halo v. Pulse*)

35 U.S.C. §284
- “Provides simply that ‘the court may increase the damages up to three times the amount found or assessed’” [Emphases added]
  - “That language contains no explicit limit or condition,” though a court’s discretion to enhance damages should not be based on “whim”
- Conduct warranting enhanced damages has been described in previous cases as “willful, wanton, malicious, bad-faith, deliberate, consciously wrongful, flagrant, or—indeed—characteristic of a pirate.”
  - Seagate did at least recognize that “enhanced damages are generally appropriate [] only in egregious cases.” BUT . . .
  - …. Seagate’s test “‘is unduly rigid, and it impermissibly encumbers the statutory grant of discretion to district courts.’”
- Quote is from S. Ct. *Octane Fitness* decision regarding similar issue with awarding attorney’s fees in “exceptional cases.”
The Seagate test “can have the effect of insulating some of the worst patent infringers from any liability for enhanced damages.”

Court rejected the notion in *Seagate* that “an independent showing of objective recklessness [] should be a prerequisite to enhanced damages.”

Thus rejected the notion that the existence of a defense at the infringement trial (even if unsuccessful) “insulates the infringer from enhanced damages, even if he did not act on the basis of the defense or was even aware of it.

- “[C]ulpability is generally measured against the knowledge of the actor at the time of the challenged conduct.” [Emphasis added]

Court also stated:

- Enhanced damages are to be governed by a “preponderance of the evidence” standard, rather than “clear and convincing.”

- Enhanced damages should be reviewed “for abuse of discretion” and not *de novo*.

- 35 U.S.C. §298 merely indicates there’s no “‘affirmative duty’” to obtain advice of counsel prior to initiating any possible infringing activity, but it does not endorse the *Seagate* test.

  - [BTW, Just because there is no “affirmative duty” does not mean advice of counsel is not an effective way to show lack of intent where willfulness/enhanced damages might otherwise be shown in any number of ways]

- Enhanced damages are to be applied in “egregious,” rather than “garden variety” cases – Consistent with nearly two centuries of precedent (i.e., nothing new…)

- Remanded consistent with this opinion

Concurring opinion (Breyer, Kennedy, Alito)

- Wrote separately to express their view of the “limits” of the enhanced damages statute

- Discussed the role of opinions of counsel
• Agreed with majority that, under §298, “failure to obtain advice of counsel . . . may not be used to prove [willful infringement].
  – Noted that opinions “could easily cost up to $100,000 per patent.”
  » The expense could prevent a small business from innovating

• However, they do not say that “a lawyer’s informed opinion would be unhelpful.”
  – E.g., “may help draw the line between infringing and noninfringing uses.”

FEDERAL CIRCUIT DECISIONS (POST-HALO)

• **WBIP v. Kohler (Fed. Cir. July, 2016)**
  – Background
    • Judges Moore (Author), O’Malley and Chen
    • Defendant’s employees had visited defendant’s trailer at a trade show and asked how the patentee’s product achieved it’s advantageous results. Patentee explained it’s technology
      – A year later, defendant launched its own product having similar results to patentee’s product
    • Jury found the infringement willful
      – District Ct. granted motion for enhanced damages (50%), applying factors from *Read v. Portec*
    • Proceedings were under the *Seagate* standard
      – E.g., district court concluded that defendant’s defenses at trial were “objectively unreasonable,” the “clear and convincing” standard was used, etc.
    • Defendant appeals district court’s determination of willful infringement

Federal Circuit, reiterating mandate from *Halo*:
  – Reviewed the district court for “abuse of discretion.”
Under *Halo*, the court noted that “an infringer’s **subjective** bad faith **alone** may support an award of enhanced damages.”

Also noted “the appropriate time frame for considering culpability is by assessing the infringer’s knowledge **at the time of the challenged conduct.**”

Further, the defendant “cannot insulate itself from liability [] by creating an (ultimately unsuccessful) invalidity defense for trial after engaging in the culpable conduct of copying, or plundering,” [plaintiff’s] patented technology prior to litigation.

Other comments in consideration of *Halo*:

- “Knowledge of the patent alleged to be willfully infringed continues to be a prerequisite to enhanced damages.”
- “There continues to be “a right to a **jury trial** on the willfulness question.”
- However, “a jury verdict of willful infringement [does not necessarily] result in enhanced damages. Whether the conduct is sufficiently egregious as to warrant enhancement [] are committed to the sound discretion of the **district court.**”
  - [So,… if you’re a willful infringer but there are no enhanced damages, then perhaps who cares…..Thus, enhanced damages are a big question. But all other things being equal, a higher incidence of willfulness is likely to lead to more enhanced damages]

**Analysis/Holding**

- Court found there “was substantial evidence for the jury’s finding that [plaintiff] had knowledge of the patents in suit at the time of infringement.”
- Regarding enhancing damages, the court stated “[w]e cannot say that the district court abused its discretion in enhancing damages for [plaintiff’s] willful infringement.”

- **Halo v. Pulse (Fed. Cir. August, 2016)**
  - Background
    - Judges Lourie (Author), O’Malley and Hughes
    - Remanded back to Federal Circuit in light of *Halo* (S. Ct.)
Federal Circuit reiterated the background of the case. Pointed out that, upon receiving a letter from Halo (plaintiff) to license the patents:

- “The president of Pulse [defendant] contacted a Pulse engineer, who spent about two hours reviewing the Halo patents and concluded that they were invalid in view of prior Pulse products.”
- “Pulse did not seek an opinion of counsel on the validity of the Halo patents at that time and continued to sell its [ultimately infringing] products.”
- (As previously mentioned, district court concluded the “objective prong” of Seagate was not satisfied, and thus no willfulness)
- *Halo v. Pulse* (Fed. Cir. August, 2016)

**Analysis/Holding**

- Defendant does not challenge the propriety of the jury finding of subjective willfulness
- Thus, the Federal Circuit remanded “for the district court to exercise its discretion and to decide whether, taking into consideration the jury’s unchallenged subjective willfulness finding as one factor in its analysis, an enhancement of the damages award is warranted.”

**Innovention Toys v. MGA Entertainment** (Fed. Cir. August, 2016 – Non Precedential)

**Background**

- Judges Lourie, Plager and Taranto (author),
- Remanded (GVR) back to Federal Circuit in light of *Halo*
- Federal circuit had previously reversed the district court’s willfulness finding and enhanced damages
  - Federal Circuit’s previous reversal of the district court had hinged on a finding of no objective recklessness.
  - Subjective recklessness had not been disputed by defendant.
  - [Since Halo removed the objective recklessness requirement, all that is left is the subjective requirement, and so . . . ]
Analysis/Holding

– Federal circuit now affirms district court’s finding of willfulness
– BUT, “Halo does not require that we now [also] affirm the district court’s award of enhanced damages and fees.”
  • “Through its emphasis on egregiousness and otherwise, Halo clarifies the policies affecting whether to enhance damages.” Thus a remand is warranted.
    – [Not sure Halo really said anything new about considerations for enhancing damages . . . .]
    – [Sounds like the court wants to give the defendant another bite at the “no-enhanced-damages” apple so that they wind up with the Federal Circuit’s previous result…]
    – “In so concluding, we do not suggest that the district court should reach results different from its pre-appeal rulings on enhancement and fees.”
    – [Will be interesting to see if the district court does not enhance damages again.]

• **Stryker v. Zimmer (Fed. Cir. September, 2016)**

Background

– Judges Prost (author), Newman and Hughes
– Remanded back to Federal Circuit in light of *Halo*
– Jury had found defendant willfully infringed all of plaintiff’s patents and District Court awarded treble damages
– Federal Circuit, applying the *Seagate* test, reversed the jury’s willfulness finding and vacated the associated award of treble damages
  • Reversed in view of district Court not having considered the “objective prong” of *Seagate*

Analysis/Holding

– Defendant did not appeal the jury’s finding of subjective willfulness under the *Seagate* test. Willful misconduct is thus sufficiently established by the jury’s finding.
In affirming the jury’s finding of willfulness, court found that “the best course” is to vacate the award of enhanced damages and remand to the district court for consideration of that issue “in light of longstanding considerations,” particularly the egregiousness of the infringement.

**WesternGeco v. Ion Geophysical (Fed. Cir. September, 2016)**

**Background**
- Judges Dyk (author), Wallach and Hughes
- District Court:
  - Jury had found defendant’s infringement “subjectively reckless” under Seagate’s second prong
  - But, Judge granted defendant’s JMOL motion that defendant’s “positions were reasonable and not objectively baseless and thus that the objective [first] prong of the Seagate test had not been satisfied.”
    - Defendant thus “not a willful infringer meriting enhanced damages”
  - Federal Circuit affirmed
  - Remanded (GVR) back to Federal Circuit in light of Halo

**Federal Circuit, reiterated concepts from Halo:**
- In also emphasizing that Halo did not disturb the second prong (subjective willfulness) of Seagate, the court indicated that the district court’s broad discretion to consider factors relevant to subjective willfulness could include factors of “objective unreasonableness.”

**Analysis/Holding**
- Since the motion for JMOL was premised on the “objective prong” not having been met, the Federal Circuit vacated the determination of no willful infringement by defendant
- On remand the district court must consider:
  - Subjective willfulness (again), in view of a timely motion that the jury’s verdict of willfulness was unsupported by substantial evidence
Note: New standard for such support is “preponderance of the evidence.”

- Whether enhanced damages should be awarded (assuming willfulness is found again).
  - Federal Circuit again emphasized the district court should consider if defendant’s infringement was egregious . . .

**DISTRICT CT. DECISIONS (SOUND BITES OF INTEREST)**

  - Jury found willfulness but judge set aside the verdict. The following pre-suit evidence was deemed insufficient for willfulness:
    - Defendant had possession of a notice of allowance listing the patent in suit as a reference
    - The mere fact that defendant performed “competitive analysis of [patentee’s] products” and patentee issued press release about the issuance of the asserted patent.
    - Evidence that defendant was aware of the parent application to the asserted patent

  - Jury found willful infringement and court awarded treble damages
  - Court found defendant to be “objectively reckless,” and seemed to suggest that by meeting the *Seagate* test, it would certainly meet the *Halo* test.
  - Evidence of “copying” from seeing the prototype at a trade show.
  - Defendant’s patent agent rendered a short, conclusory sentence during the relevant time frame and sought advice of qualified counsel only much later . . .
    - The court found that the lack of a competent opinion during the relevant time period favored enhancing damages.

- Jury found willful infringement, but court did not enhance damages.
  - The court noted that opinions of counsel and the defendant’s pre-suit conduct weighed against a finding of egregiousness.
    - Defendants obtained opinions of counsel based on testing, and further provided samples of the allegedly infringing product to the plaintiffs to demonstrate what ended up being the ultimately unsuccessful non-infringement argument.


Jury found willful infringement, and court trebled damages.

- Analyzing the Read factors for enhanced damages, court found evidence of “copying” and that defendant tracked plaintiff’s patent portfolio since 2011 (suit filed in 2014) and had attempted to purchase the patents anonymously through a patent broker.
- Also, regarding opinions of counsel, the court specifically noted that “[d]espite knowing of Plaintiff’s patents since at least April 2011, Defendant never undertook any serious investigation to form a good-faith belief as to non-infringement or invalidity.”

ADDITIONAL THOUGHTS AND POSSIBLE IMPLICATIONS

- The precise degree to which willful infringement and enhanced damages will increase is TBD
  - However, previous Federal Circuit reversals of willfulness are already unwinding
- Competent opinions of counsel clearly can mitigate subjective intent of infringement, and thus mitigate findings of “willfulness” and enhanced damages
Concurring opinion in Halo reiterated that opinions are not “required” to disprove willfulness, but courts have recently reconfirmed that they are a “factor”

- And opinions remain a factor from Read v. Portec, generally regarding enhanced damages

When might an opinion (or some type of analysis) make sense?

- Example scenarios include:
  - Freedom to operate investigation uncovers a “risky” patent
  - Litigious competitor patent comes to light
  - Known litigious NPE has sent a “letter”
  - Desire to delve into the business case of whether there is infringement, in fact

- Can help inform a design-around analysis where an opinion then helps confirm the efficacy of the effort and potentially protect the ultimate product from willful infringement

- This type of use is what the concurring opinion in Halo was getting at

- In all cases above, “exposure” should be above a certain threshold

If opinion(s) seems warranted, factors to then consider in determining the nature and extent of opinion(s):

- What is the level of exposure?
- What are the complexity of the issues?
- How many patents need to be analyzed?
- How likely is it the patentee will come after you?

Considerations for determining the aforementioned factors:

- Incremental analysis into the issues to determine if there is a “problem”
  - Can/should the issue be resolved with a “light” opinion
NOTES