

What's Willful Now?

The Practical Impact of the Supreme Court's *Halo v. Pulse* Patent Willfulness Decision

Andrew J. Pincus
apincus@mayerbrown.com

Brian A. Rosenthal
brosenthal@mayerbrown.com

June 2016

Overview

- *Halo's* new standard for finding willfulness and awarding enhanced damages.
- More awards of enhanced damages—or awards in different types of cases—or both?
- New burden of proof and standard of appellate review.
- Impact on litigation strategy and settlement dynamics.
- Handling pending cases.
- Obtaining opinions of counsel, and whether to waive privilege.

Statutory Text

- 35 U.S. § 284:
 - Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court. When the damages are not found by a jury, the court shall assess them.
 - In either event the court may increase the damages up to three times the amount found or assessed. Increased damages under this paragraph shall not apply to provisional rights under section 154(d).
 - The court may receive expert testimony as an aid to the determination of damages or of what royalty would be reasonable under the circumstances.

Underwater Devices (Fed. Cir. 1983)

- “Where . . . a potential infringer has actual notice of another’s patent rights, he has an affirmative duty to exercise due care to determine whether or not he is infringing.”
- Criticized for opening the door to enhanced damages based on receipt of a demand letter combined with alleged inadequate investigation.
- Practice of obtaining opinion letters developed in response to this test.

In re Seagate Technology, LLC (Fed. Cir. 2007)

- Two-part test:
 - First, “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,” without regard to “[t]he state of mind of the accused infringer.”
 - “[D]etermined by the record developed in the infringement proceedings.” Objectively reasonable defense to infringement sufficed even if accused infringer unaware at the time.
 - Second, patentee had to show by clear and convincing evidence the risk of infringement “was either known or so obvious that it should have been known to the accused infringer.”
- Only when **both steps** were satisfied could the district court proceed to consider whether to exercise its discretion to award enhanced damages.
- *Bard*: (a) objective recklessness was a question of law to be determined by the judge, not jury; (b) subject to *de novo* review on appeal.

Pre-*Halo* Willfulness Standard in Action

- Many defendants sought, and courts granted, summary judgment on non-willfulness.
- Objective reasonableness prong particularly susceptible to summary judgment:
 - *Butamax Advanced Biofuels LLC v. Gevo, Inc.* (D. Del. Aug. 3, 2015) – “In the case at bar, Gevo asserted invalidity and non-infringement arguments for the '889 patent and Gevo's motion for summary judgment of the '889 patent is granted as to indefiniteness. With respect to the Donaldson patents, Gevo's invalidity and noninfringement arguments, at minimum, are credible and reasonable theories supported by expert testimony. Gevo's motion for summary judgment of no willful infringement is granted.”
 - *Dane Techs., Inc. v. Gatekeeper Sys., Inc.* (D. Minn. Sept. 29, 2015) – “Gatekeeper has presented several defenses to infringement that are objectively reasonable as a matter of law. Gatekeeper's positions during claim construction, although not all were accepted, were objectively reasonable.... Finally, Gatekeeper conducted a due diligence investigation before purchasing DJ Products Inc.'s cart retriever product line. This included an infringement evaluation of the '379 Patent. Rather than showing recklessness, Gatekeeper's conduct evidences the opposite, that it engaged in a suitable investigation to determine whether or not its intended acquisition infringed Dane's patent rights. Thus, Gatekeeper is entitled to summary judgment on Dane's claim of willful infringement.”

Supreme Court grants review in *Halo* and *Stryker*

- Halo, a supplier of electronic components sued Pulse for infringement of three patents regarding surface mount electronic packages. The district court held that Pulse's infringement was not willful and the Federal Circuit affirmed.
- Stryker sued Zimmer for infringement of patents relating to medical equipment—pulsed lavage devices, which deliver pressurized irrigation for certain medical procedures in orthopedic medicine. The jury awarded enhanced damages; the Federal Circuit reversed the award under *Seagate*.

Halo–Willfulness Standard

- Supreme Court wrote approvingly of *Seagate’s* approach:
 - “[R]eflects, in many respects, a sound recognition that enhanced damages are generally appropriate under § 284 only in egregious cases”
- But *Seagate’s* standard “unduly rigid” by requiring proof of objective recklessness in every case.
 - Could have the effect of “exclud[ing] from discretionary punishment many of the most culpable offenders, such as the ‘wanton and malicious pirate’ who intentionally infringes another’s patent—with no doubts about its validity or any notion of a defense—for no purpose other than to steal the patentee’s business.”
- Awards of enhanced damages “are not to be meted out in a typical infringement case, but are instead designed as a ‘punitive’ or ‘vindictive’ sanction for egregious infringement behavior. The sort of conduct warranting enhanced damages has been variously described in our cases as willful, wanton, malicious, bad-faith, deliberate, consciously wrongful, flagrant, or—indeed—characteristic of a pirate.”

Halo–Willfulness Standard (cont’d)

- Section 284’s text grants broad discretion to district courts, but
 - “through nearly two centuries of discretionary awards and review by appellate tribunals, ‘the channel of discretion ha[s] narrowed,’ so that such damages are generally reserved for egregious cases of culpable behavior.”
- Enhanced damages “should not be” “awarded in garden-variety cases.”
- The principles set forth in the Court’s opinion “channel the district court’s exercise of discretion, limiting the award of enhanced damages to egregious cases of misconduct beyond typical infringement.”
- Note: because culpability is measured by reference to the “knowledge of the actor at the time of the challenged conduct,” defenses developed after infringement do not insulate conduct from an award of enhanced damages.
- A district court is not obligated to award enhanced damages when it finds the requisite “egregious misconduct.”: “[a]s with any exercise of discretion, courts should continue to take into account the particular circumstances of each case in deciding whether to award damages, and in what amount.”

Halo–Willfulness Standard (*cont’d*)

- Justices Breyer, Kennedy, and Alito concur, describing the limitations on the award of enhanced damages resulting from the Court’s standard.
- Enhanced damages not appropriate if “the infringer knew about the patent *and nothing more.*” Other circumstances needed to “transform[] simple knowledge into ... egregious behavior, and that makes all the difference.”
 - Required circumstances must show the defendant’s conduct to be “either ‘deliberate’ or ‘wanton’” —akin to the “wanton and malicious pirate” described in the Court’s opinion.
- Decision “does not weaken” Section 298, which provides that failure to obtain advice of counsel may not be used to show willful infringement.
- Enhanced damages cannot be awarded to compensate patentees for damages or litigation costs.

Halo–Willfulness Standard (*cont'd*)

- Court rejected *Seagate*; what other arguments did it reject?
 - Halo: court should “balance all relevant factors” and impose enhanced damages “whenever the circumstances require it.” Could include “bad faith infringement”; imposition of “unnecessary expense and burden on the patent holder”; “purposely ignoring a patentee’s attempts to license.”; “failing to investigate a known patent.”
 - Stryker: court should consider “the totality of the circumstances”; enhanced damages appropriate if “conduct demonstrated heightened culpability or wrongfulness, typically beyond mere negligence.”
 - U.S.: paradigmatic case is “deliberate[.]” copying, but that is not required: “bad faith” or “reckless conduct” justifies an award of enhanced damages.
- Is objective reasonableness still relevant?
 - Today’s decision in *Kirtsaeng* interpreting Copyright Act’s attorneys’ fee provision may indicate strong relevance.
 - Court’s *Octane* decision interpreting Patent Act attorneys’ fee provision relied on Copyright Act parallel, and *Halo* relied on *Octane*.

Halo—New Procedural Rules

- Burden of proof
 - *Seagate* required “clear and convincing evidence.”
 - *Halo* held that “preponderance of the evidence” standard applies.
- Appellate review
 - Federal Circuit utilized tripartite standard: (1) objective recklessness reviewed *de novo*; (2) subjective knowledge under a substantial evidence test; and (3) whether to award enhanced damages, for abuse of discretion.
 - *Halo*: Section 284 “commits the determination” whether enhanced damages are appropriate “to the discretion of the district court” and “that decision is to be reviewed on appeal for abuse of discretion.”
- Jury vs. judge
 - Not addressed.

Halo's Impact—More Enhanced Damages Awards?

- Coming next: the battle over *Halo's* meaning
 - A broader opening for enhanced damages, or just a different test?
 - Greater focus on subjective intent/copying?
 - Level of intent required?
 - Relevance of objective reasonableness—at least based on defendant's knowledge at time of alleged infringement?
 - Resolution of claims pre-trial?

Impact of *Halo* on Summary Judgment Practice Related to Willfulness

- *Halo's* new standard may make summary judgment more difficult to obtain.
- Defendants have been frequently filing motions based on the presence of objectively reasonable defenses in the litigation, regardless of subjective facts.
- Now there is a significant question whether Courts will entertain such motions.
 - Will district courts grant “no willfulness” without a fact finding into egregious conduct?
 - If there is a fact-finding, who will make the factual determinations?
 - Will district courts allow juries to hear egregious conduct facts, and reserve the willfulness determination until after the jury decides the underlying case?
- These questions will be left to district courts and the Federal Circuit.

Litigation Strategy–Bifurcation

- Accused infringers are more likely to seek bifurcation of willfulness issues.
 - Since willfulness is now so soundly within court’s discretion, after liability presentation the court may be in the best position to decide based on own reasoning.
 - Litigants may seek additional evidentiary hearing before the court (outside the presence of the jury) as part of post-trial motions, in a similar manner as exceptional case awards under 35 U.S.C. § 285.
 - Supreme Court drew a parallel between the two standards in its *Halo* decision, so there is some merit to treating this issue as one wholly outside the context of the jury trial.
- Patent Holders will likely seek fact findings from the jury regarding subjective intent, knowledge and other factors that need to be considered in court’s discretion.

Impact of *Halo* on Settlement and Leverage

- Because of the uncertainty of how the court will exercise its discretion, patent holders may see this case as providing more settlement leverage.
- Because summary judgment may be more difficult to obtain, patent holders may also view it to be more likely that they will be permitted to present their “willfulness” facts to the jury.
- On the other hand, defendants will argue that the new standard is higher than before, requiring egregious conduct, making it less likely that judges will enhance damages.
- Defendants will also argue that the new standard removes the question of willfulness entirely from the jury, and instead commits the issue of enhanced damages entirely to the court, insulating the jury trial from evidence solely related to willfulness.
- A further consideration, addressed in the concurrence, is that due to the uncertainty in the standard, the case may increase filings.
- *Halo* puts willfulness back into the conversation, whereas under *Seagate* today it far less often factored into settlement talks.

Impact of *Halo* on Pending Cases

- For existing cases where summary judgment has been granted of no willful infringement, patent holders are likely to seek reconsideration in light of new standard.
 - It will be informative to see if district courts then require a fact finding on the underlying facts related to willfulness allegation.
 - District courts may simply exercise their discretion to deny willfulness due to the objective reasonableness of the defenses.
- For cases that already have a jury finding in either direction, expect motions to set aside jury verdict and for new jury trials.

Impact of *Halo* on Decision to Obtain Advice of Counsel and Waive Privilege During Litigation

- Under *Seagate*, failing to either obtain opinion of counsel on noninfringement, or to present such opinion to the jury, could not be used to prove that the accused infringer willfully infringed.
 - As a result, some companies obtained fewer opinions of counsel.
 - Section 298 remains in force.
- Companies will have stronger incentive to obtain advice of counsel when informed of patents, to help sway the court's exercise of discretion.
- Companies will have stronger incentive to waive privilege and rely on opinions during litigation to defend against allegations of willfulness.

Questions?

- Please feel free to email or call:

—**Andy Pincus**

apincus@mayerbrown.com

+1 202 263 3220

—**Brian Rosenthal**

brosenthal@mayerbrown.com

+1 212 506 2754

MAYER • BROWN

Mayer Brown is a global legal services provider comprising legal practices that are separate entities (the "Mayer Brown Practices"). The Mayer Brown Practices are: Mayer Brown LLP and Mayer Brown Europe-Brussels LLP, both limited liability partnerships established in Illinois USA; Mayer Brown International LLP, a limited liability partnership incorporated in England and Wales (authorized and regulated by the Solicitors Regulation Authority and registered in England and Wales number OC 303359); Mayer Brown, a SELAS established in France; Mayer Brown Mexico, S.C., a sociedad civil formed under the laws of the State of Durango, Mexico; Mayer Brown JSM, a Hong Kong partnership and its associated legal practices in Asia; and Tauil & Chequer Advogados, a Brazilian law partnership with which Mayer Brown is associated. Mayer Brown Consulting (Singapore) Pte. Ltd and its subsidiary, which are affiliated with Mayer Brown, provide customs and trade advisory and consultancy services, not legal services. "Mayer Brown" and the Mayer Brown logo are the trademarks of the Mayer Brown Practices in their respective jurisdictions.