

## Litigation Webinar Series

# Enhanced Damages in Patent Cases After *Halo v. Pulse*



**Craig Countryman**  
Principal  
Southern California

# Overview

---

- Litigation Series
  - Key Developments & Trends
- Housekeeping
  - CLE Contact: Jane Lundberg
    - [lundberg@fr.com](mailto:lundberg@fr.com)
  - Questions
  - Materials: [fishlitigationblog.com/webinars](http://fishlitigationblog.com/webinars)
- #fishwebinar

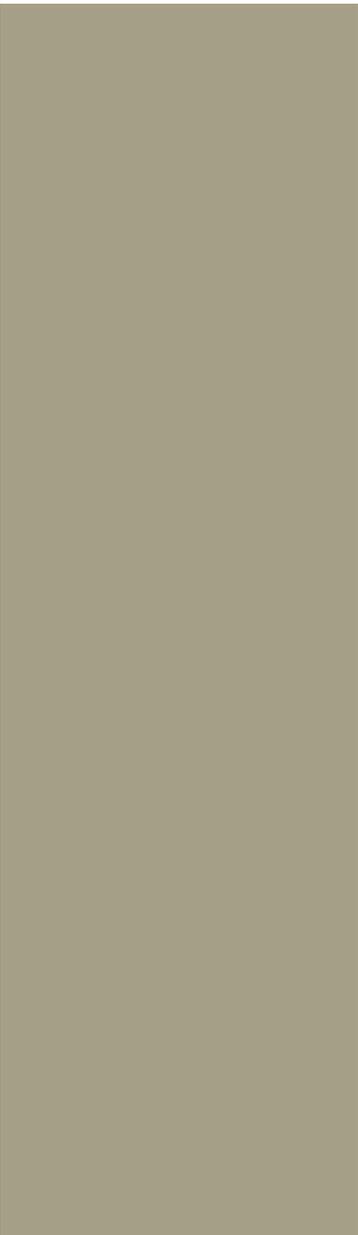
**Next Steps for Next  
Gen: Practical Ways to  
Empower Younger,  
More Diverse Lawyers**

**July 20, 2016  
1:00 p.m. EDT**

# Topics for Today

---

- The background of *Halo* and *Stryker*
- The Supreme Court's new enhancement standard
- Open legal questions not resolved by the Supreme Court
- What should defendants do to mitigate the risk of willfulness findings or enhancement?
- Post-*Halo* decisions on enhancement



# The Background of *Halo* and its Companion Case

# Pulse's Years of Bad Faith Conduct

---

- Halo and Pulse are direct competitors
- Halo begins selling the patented invention, and sees its revenue dramatically increase
- Pulse copies the invention after seeing the patents and takes significant sales from Halo at common customers
- Halo sends Pulse letters saying that Pulse's products may be covered by the patents, but Pulse never responds
- A Pulse engineer conducts an admittedly "cursory" review that is not corroborated by any contemporaneous documents
- No Pulse decision-maker relies on this review or makes a "conscious decision" that it may lawfully continue its conduct
- Halo wins summary judgment of infringement, yet Pulse continues to infringe until it is eventually enjoined

# Zimmer Copies Stryker's Products

---

- Stryker and Zimmer are direct competitors
- After Zimmer's initial product failed, it gave a contractor Stryker's product and effectively said "make one for us"
- When Zimmer launches the product, it immediately takes market share from Stryker
- Zimmer has to pull its product off the market for a year for quality issues, but, when Zimmer reintroduces the product, it again takes significant market share from Stryker
- The district court grants summary judgment of infringement on most claims, and, after trial, observes that this was "not a close case"

# Seagate Requires Objective Recklessness

---

“[T]o establish willful infringement, 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. ***The state of mind of the accused infringer is not relevant to this objective inquiry.*** If this threshold objective standard is satisfied, the patentee must also demonstrate that this objectively-defined risk (determined by the record developed in the infringement proceeding) was either known or so obvious that it should have been known to the accused infringer.”

*In re Seagate Tech. LLC*, 497 F.3d 1360, 1371 (Fed. Cir. 2007) (en banc) (emphasis added).

# *Bard* Permits *De Novo* Review of Recklessness

---

“We believe that the court is in the best position for making the determination of reasonableness. This court therefore holds that the objective determination of recklessness, even though predicated on underlying mixed questions of law and fact, is best decided by the judge as a question of law subject to *de novo* review.”

*Bard Peripheral Vascular, Inc. v. W.L. Gore & Assocs., Inc.*, 682 F.3d 1003, 1006-07 (Fed. Cir. 2012).

# The Lower Court Decisions

---

- *Halo*:
  - The jury finds willful infringement because Pulse met *Seagate*'s "subjective" prong
  - The district court holds that *Seagate*'s "objective" prong is not met because Pulse presented an obviousness defense at trial that was "not a sham"
  - The court's decision precludes Halo from seeking enhanced damages or fees
  - The Federal Circuit affirms under the objective prong
- *Stryker*:
  - The jury and district court find Zimmer's conduct willful, and the district court awards treble damages and fees
  - The Federal Circuit reverses on the objective prong applying *de novo* review

# Intervening Developments Cast Doubt on *Seagate*

- *Octane Fitness v. ICON Health & Fitness*, 134 S. Ct. 1749, 1756 (2014) rejects a rigid two-part test for imposing attorney fees:

“The Federal Circuit's formulation is overly rigid. Under the standard crafted in *Brooks Furniture*, a case is ‘exceptional’ only if a district court either finds litigation-related misconduct of an independently sanctionable magnitude or determines that the litigation was both ‘brought in subjective bad faith’ and ‘objectively baseless.’ This formulation superimposes an inflexible framework onto statutory text that is inherently flexible.”

- Section 284’s text is just as flexible as § 285’s text:

35 U.S.C. § 284	35 U.S.C. § 285
“[T]he Court may increase the damages up to three times the amount found or assessed.”	“The court in exceptional cases may award reasonable attorney fees to the prevailing party.”

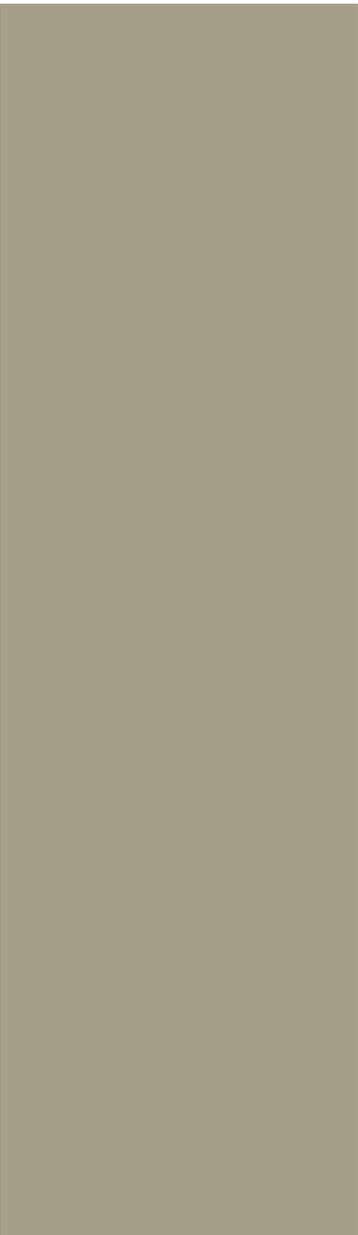
# Some CAFC Judges Spotted the Problem

---

- Two judges on the *Halo* panel urged *en banc* reconsideration of *Seagate* and *Bard* in light of *Octane* and *Highmark*:

“Just as ‘the *PRE* standard finds no roots in the text of § 285,’ [*Octane*, 134 S. Ct. at 1757-58], there is nothing in the text of § 284 that justifies the use of the *PRE* narrow standard. In rejecting the rigid two-prong, subjective/objective test for § 285 under *Brooks Furniture*, the Supreme Court told us to employ a flexible totality of the circumstances test. We should now assess whether a similar flexible test is appropriate for an award of enhanced damages.”

*Halo Elecs., Inc. v. Pulse Elecs., Inc.*, 769 F.3d 1371, 1385 (Fed. Cir. 2014) (O’Malley, J., joined by Hughes, J., concurring).



# The Supreme Court's Holdings

**FISH.**

# Summary of the *Halo's* Holdings

---

1. Enhanced damages are “generally reserved for egregious cases of culpable behavior”
2. District court has discretion to enhance damages based on a finding of subjective bad faith, even if the defendant’s conduct is not objectively reckless
3. Preponderance standard, not clear and convincing
4. Abuse of discretion review, not *de novo*

# History Limits Enhancement to “Egregious” Cases

---

“Awards of enhanced damages under the Patent Act over the past 180 years establish that they 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 Elecs., Inc. v. Pulse Elecs., Inc.*, No. 14-1513, slip op. at 8.

## “Egregious” Conduct May Be Shown by Bad Faith Alone

---

“The principal problem with *Seagate*’s two-part test is that it requires a finding of objective recklessness in every case before district courts may award enhanced damages. Such a threshold requirement excludes 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.”

*Halo Elecs.*, No. 14-1513, slip op. at 9.

# “Egregious” Conduct May Be Shown by Bad Faith Alone

---

“The subjective willfulness of a patent infringer, intentional or knowing, may warrant enhanced damages, without regard to whether his infringement was objectively reckless.”

*Halo Elecs.*, No. 14-1513, slip op. at 10.

# Later Developed Trial Defenses May Not Be Enough

---

“The *Seagate* test aggravates the problem by making dispositive the ability of the infringer to muster a reasonable (even though unsuccessful) defense at the infringement trial. The existence of such a defense insulates the infringer from enhanced damages, even if he did not act on the basis of the defense or was even aware of it. Under that standard, someone who plunders a patent—infringing it without any reason to suppose his conduct is arguably defensible—can nevertheless escape any comeuppance under §284 solely on the strength of his attorney’s ingenuity.

But culpability is generally measured against the knowledge of the actor ***at the time of the challenged conduct.***”

*Halo Elecs.*, No. 14-1513, slip op. at 10 (emphasis added).

## District Courts Have the Power, But Not the Obligation, to Enhance in Egregious Cases

---

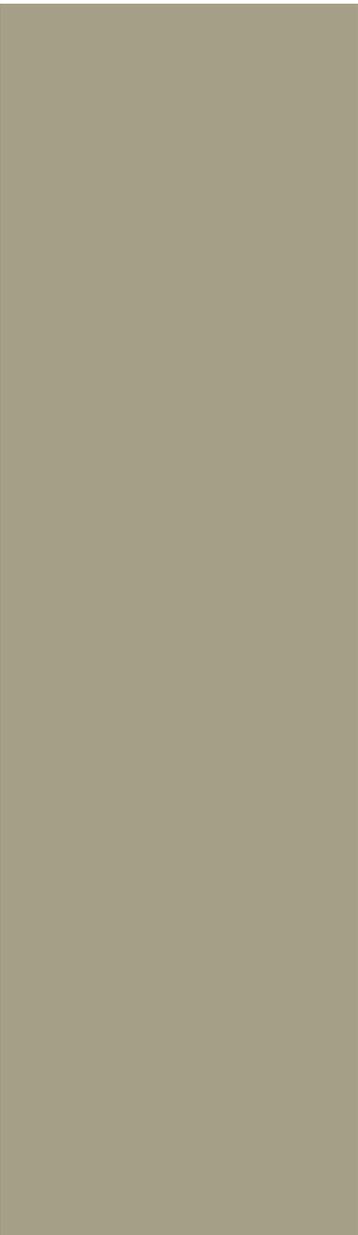
“Section 284 allows district courts to punish the full range of culpable behavior. ***Yet none of this is to say that enhanced damages must follow a finding of egregious misconduct.*** As with any exercise of discretion, courts should continue to take into account the particular circumstances of each case in deciding whether to award damages, and in what amount. Section 284 permits district courts to exercise their discretion in a manner free from the inelastic constraints of the *Seagate* test. Consistent with nearly two centuries of enhanced damages under patent law, however, such punishment should generally be reserved for egregious cases typified by willful misconduct.”

*Halo Elecs.*, No. 14-1513, slip op. at 11 (emphasis added).

# Justice Breyer Seeks to Confine Enhancement

---

- Willful misconduct is not shown where “the infringer knew about the patent *and nothing* more”
- No requirement to obtain costly opinions of counsel, especially given 35 U.S.C. § 298
- Enhancement may only be for punitive purposes, not compensation
- The Federal Circuit “may take advantage of its own experience and expertise in patent law” when reviewing for abuse of discretion, including when judging an infringer’s subjective belief of non-infringement or invalidity



# Open Questions *After Halo*

# What Types of Conduct are “Egregious”?

---

- *Topliff v. Topliff*, 145 U.S. 156, 174 (1892) (noting the district court could have enhanced where the infringer knowingly copied his former employer’s technology)
- *Fox v. Knickerbocker Engraving Co.*, 165 F. 442, 444 (2d Cir. 1908) (affirming enhancement where the defendant “had reason to believe it was infringing” because customers had requested indemnity, including one it took from the plaintiff)
- *Consolidated Rubber Tire Co. v. Diamond Rubber Co.*, 226 F. 455, 463 (S.D.N.Y. 1915) (L. Hand, J.) (enhancing where the defendant knew it infringed, concealed evidence, and engaged in “deviousness throughout ... its persistent effort to suck the value from the invention”)

# How Do Defendants Show Lack of Willfulness?

---

- *Hogg v. Emerson*, 52 U.S. 587, 607 (1850) (no enhancement appropriate where the defendant had no pre-suit knowledge of the patent)
- *Livingston v. Woodworth*, 56 U.S. 546, 560 (1853) (no enhancement where the infringer was acting under the subjective belief that its conduct was protected by another patent, but then immediately consented to an injunction and damages once it learned it was wrong)
- *Corning v. Burden*, 56 U.S. 252, 271 (1854) (holding an infringer could introduce evidence of its own patent to show that “his machine is new, and not an infringement” and noting that it showed, at a minimum, the infringer’s “good faith”)

# Who Decides “Willfulness”?

---

- The statute gives the enhancement determination to the court.
  - 35 U.S.C. § 284 (“**the court** may increase the damages up to three times the amount found or assessed.”)
- The Federal Circuit has previously given willfulness to the jury
  - *See, e.g., Shiley v. Bentley Labs., Inc.*, 794 F.2d 1561, 1568 (Fed. Cir. 1986) (“The trial court apparently deemed it necessary to label as ‘advisory’ one of the jury’s fact findings on willful infringement, and to make its own finding of fact, to enable it to exercise the court’s statutory discretion to award increased damages. That step was neither appropriate nor necessary.”)
- Judge O’Malley’s *Halo* concurrence flags this as an issue ripe for reconsideration

# What Factors Govern Whether to Enhance?

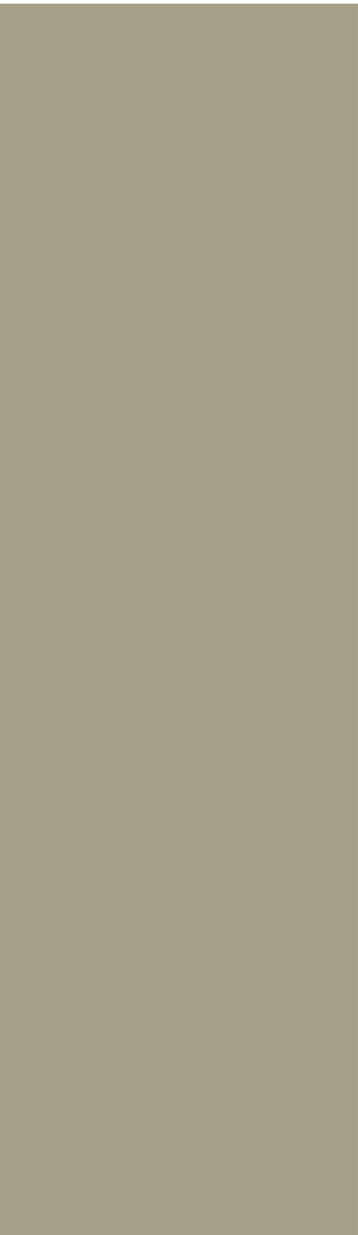
---

- “Egregiousness” is a pre-requisite
- The factors from *Read Corp. v. Portec, Inc.*, 970 F.2d 816, 827-28 (Fed. Cir. 1992), reflect historical practice, so they will likely remain in place:
  - Whether the infringer deliberately copied;
  - 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;
  - The infringer’s behavior as a party to the litigation;
  - Defendant’s size and financial condition;
  - Closeness of the case;
  - Duration of the defendant’s misconduct;
  - Remedial action, if any, taken by the defendant;
  - Defendant’s motivation for the harm; and
  - Whether defendant attempted to conceal its misconduct.

# What Role Will Opinions of Counsel Play?

---

- Failure to obtain or disclose an opinion can't be used to prove willfulness. See 35 U.S.C. § 298
- But *Halo* holds that the defendant's subjective belief is assessed "at the time of the challenged conduct."
  - That implies that a defendant whose conduct might expose it to a legitimate charge of willfulness would be well-advised to secure an opinion
  - At a minimum, defendants will want to conduct a contemporaneous analysis and document it in writing when their other conduct puts them at risk for a willfulness finding



## What Must Defendants Do After *Halo* to Avoid Enhancement?

# Enhancement Remains the Exception, Not the Rule

---

- *Halo* and *Stryker* were direct competitor cases involving copying where the defendant took business from the patentee
- *Halo* involved products that were covered by only the patents-in-suit
- *Halo* dealt with a situation where the patentee's letter to the infringer identified the class of infringing products
- *Halo* involved straight-forward technology where infringement was easy to determine by comparing the figures in the patent to the accused products

# Little Change is Necessary for NPE Cases

---

- The plaintiff will not be a direct competitor, and the defendant's product is usually developed independently
- Many NPE cases involve software where there are hundreds or thousands of potential patents covering various product features
- Vague NPE letters will not trigger the kind of knowledge necessary for willfulness, even if they alert the defendant to the patent's existence
- NPE cases often involve unintelligible patents where the infringement allegation is unclear unless spelled out by the patentee (and even then it may still be unclear)

# Defendants Should Be More Careful in Higher Risk Cases

---

- Competitor cases are particularly dangerous
  - Potential for copying allegations
  - Stealing customers, eroding prices, or disrupting business relationships seem more egregious than merely using technology patented by an NPE
- Beware of patents involved in prior licensing negotiations
- Contemporaneous documentation of good faith is critical
  - Where feasible, have your scientists and engineers document independent development of key features to negate copying allegations
  - Where a patent is brought to your attention, have an engineer or lawyer make written notes if they conclude it is inapplicable
- Obtain opinions of counsel on high-risk patents that are likely to be litigated

# How Extensive Should Opinions of Counsel Be?

---

- The level of risk should determine the level of detail
- For high-risk patents, obtain a thorough opinion that you would actually feel comfortable disclosing in litigation
  - Given § 298, there is little benefit to obtaining a formal opinion that you wouldn't rely upon
  - Opinions are largely useless unless they include the claim construction, non-infringement, or invalidity position that you are actually advancing in the litigation
  - For invalidity opinions, consider having them drafted so they can be easily converted into an IPR petition.
  - Opinions will be more important if willfulness becomes a judge issue, because judges are more likely to appreciate them than juries

# Should You Change Your Patent Monitoring Habits?

---

- *Halo* does not significantly tilt the balance regarding whether and how to monitor others' patents
  - Little enhancement risk from declining to monitor competitor patents, because knowledge of the patent is a pre-requisite
  - But knowledge alone won't trigger enhancement without other "egregious" behavior, so no need to remain purposefully aloof
- Companies should establish procedures for when engineers review competitor patents and keep in-house counsel involved where possible
  - Avoid situations where engineers are reviewing or copying patents unbeknownst to the legal department
  - If the legal department isn't reviewing patents, then your engineers generally shouldn't either



**District Court Decisions Post-  
*Halo***

# Post-*Halo* Cases Sustaining Willfulness or Enhancement

---

- *PPC Broadband, Inc. v. Corning Optical Communications RF, LLC*, 2016 WL 336543, at \*6-10 (N.D.N.Y. June 16, 2016) (sustaining jury's willfulness finding where a defendant reused features that had previously been found to infringe, concealed its infringement, and continued to infringe even after being sued)
- *Georgetown Rail Equipment Company v. Holland LP*, No. 13-cv-366 (E.D. Tex. June 16, 2016) (applying the *Read* factors to enhance damages from \$1.5M to \$2.5M and awarding fees where there was circumstantial evidence of copying a system the defendant knew was patented, the defendant made no efforts to investigate defenses, liability was not close, and the defendant was a large company)



# Concluding Thoughts

**FISH.**

## Key Takeaways after *Halo*

---

- *Halo* is a modest change in the law that ensures some of the worst infringers cannot escape punishment through reliance on post-hoc defenses
- NPEs will not be able to use *Halo* to cause mischief
- Obtaining opinions of counsel is wise in certain high-risk cases
- Plaintiffs will want to thoroughly investigate any facts showing copying, including by gathering circumstantial evidence, such as access to the patented product
- Defendants should argue that willfulness should be decided by the court, not the jury, to prevent spillover effects on liability or damages

---

Questions?

# *Litigation Webinar Series*

---

## Mark your calendar!

**Next Steps for Next Gen:**

**Practical Ways to Empower Younger, More Diverse Lawyers**

**July 20, 2016**

**1:00 – 2:00 p.m. EDT**

**Register at [www.fr.com](http://www.fr.com)**

# Thank you!

---



**Craig Countryman**  
Principal  
Southern California  
[countryman@fr.com](mailto:countryman@fr.com)  
858-678-5676

Please send your NY CLE forms or questions about the webinar to marketing at [lundberg@fr.com](mailto:lundberg@fr.com).

A replay of the webinar will be available for viewing at <http://fishlitigationblog.com>.

---

© Copyright 2016 Fish & Richardson P.C. These materials may be considered advertising for legal services under the laws and rules of professional conduct of the jurisdictions in which we practice. The material contained in this presentation has been gathered by the lawyers at Fish & Richardson P.C. for informational purposes only, is not intended to be legal advice and does not establish an attorney-client relationship. Legal advice of any nature should be sought from legal counsel. Unsolicited e-mails and information sent to Fish & Richardson P.C. will not be considered confidential and do not create an attorney-client relationship with Fish & Richardson P.C. or any of our attorneys. Furthermore, these communications and materials may be disclosed to others and may not receive a response. If you are not already a client of Fish & Richardson P.C., do not include any confidential information in this message. For more information about Fish & Richardson P.C. and our practices, please visit [www.fr.com](http://www.fr.com).

**#1 Patent Litigation Firm** *(Corporate Counsel, 2004–2016)*