



# Wilful infringement: consequences and best practices

David Chun and Courtney Cox discuss implications for accused infringers following the US Supreme Court's 2016 decision on enhanced damages

In cases of intentional, knowing, or otherwise “wilful” patent infringement, 35 USC § 284 gives courts discretion to increase damages up to three times the amount found. In June 2016, the Supreme Court of the US (SCOTUS) changed the standard for determining what conduct is wilful in *Halo Electronics, Inc v Pulse Electronics, Inc*.<sup>1</sup> In so doing, the court overturned the US Court of Appeals for the Federal Circuit's 2007 decision, *In re Seagate Technology, LLC*, which had itself established a new standard for wilful infringement.<sup>2</sup>

In particular, SCOTUS eliminated a defence against wilfulness based solely on the reasonableness of an accused infringer's non-infringement and invalidity defences – even if those defences were unsuccessful or were unknown at the time of infringement. This change in wilfulness law has immediate and significant implications for accused infringers today.

## Wilfulness: an evolving standard

To show wilfulness under the now-abrogated *Seagate* test, plaintiffs had to show by clear and convincing evidence that (1) the infringer knew or should have known that (2) there was an *objectively* high risk it infringed a valid patent. These requirements became known, respectively, as the “subjective” and “objective” prongs.

The objective prong proved to be the most prevalent defence to a wilfulness allegation. The risk of infringement was not

unjustifiably high if there were reasonable non-infringement or invalidity positions. And, because that risk was evaluated *objectively*, an infringer would likely not be found wilful if it presented reasonable non-infringement and invalidity positions at trial, even if those positions were neither known nor developed at the time of infringement. An advice-of-counsel defence thus became less frequent: companies receiving demand letters could wait to see if litigation would ensue before incurring the cost of engaging outside counsel and developing strong non-infringement and invalidity positions to support an opinion of counsel.

SCOTUS in *Halo* rejected the “unduly rigid” *Seagate* test. The objective prong, in particular, “impermissibly encumber[ed]” a district court's discretion to punish the full range of culpable behaviour. The Supreme Court noted that even the “wanton and malicious pirate” who intentionally infringes another's patent” could escape enhanced damages provided they could muster a reasonable non-infringement or invalidity defence for trial.<sup>3</sup>

*Halo* refocused the wilfulness inquiry on the conduct of the alleged infringer at the time of the allegedly infringing activity, and referred district courts to the “sound legal principles developed over two centuries of application and interpretation of the Patent Act” when exercising discretion to award enhanced damages. The court also lowered the burden of proof from “clear and convincing” to the “preponderance of the evidence” standard. While stressing that enhanced damages

should be limited to the “egregious cases of misconduct beyond typical infringement”, SCOTUS did not provide specific guidance regarding what conduct beyond “intentional” or “knowing” is wilful.<sup>4</sup>

At the time of writing, few courts have resolved wilful infringement claims with much more specificity than *Halo*. As a practical matter, wilful infringement allegations will become more prevalent and wilful infringement determinations more frequent. Patent owners might even become more aggressive in licensing discussions and litigation. As a result, preparing for the enhancement stage – where a court decides whether and how much to enhance damages given a wilfulness determination – is now much more important. Courts award enhancement based on the “egregiousness” of the accused's conduct and have traditionally relied on nine factors, established in *Read Corp v Portec, Inc*, to make that assessment.<sup>5</sup> Such factors include, *inter alia*, whether there was deliberate copying or attempts to conceal misconduct, the accused infringer's size and financial circumstances, and any efforts made to investigate and form a good-faith belief of non-infringement.

## Practical implications & best practices

In light of these changes, what are today's best practices when faced with a charge of infringement – whether in a demand letter, a civil complaint, or otherwise? Before the now-abrogated decision in *Seagate*, common practice was to secure a formal opinion of

counsel. In doing so, an accused infringer can benefit from more fully developed defences and potentially rely on an advice of counsel defence during litigation. But doing so had significant drawbacks, including time and expense, consistency with positions that might be taken during litigation, and (if used at trial) waiver of attorney-client privilege as to matters within the scope of the opinion.

Today, there is no affirmative duty to obtain an opinion, and no adverse inference associated with not relying on one under 35 USC § 298. Simply put, not every situation will call for such an undertaking and other responses might also effectively defeat a wilfulness charge. Importantly, while the below suggestions are helpful in defending against a wilfulness finding or enhancement of damages, no one factor is determinative and the totality of the circumstances will be considered.

- **Shift the burden to the patent owner when little or no details are provided.**

Notice of a patent is not enough to support a wilfulness finding.<sup>6</sup> If a demand letter is ambiguous about what conduct or products are accused and why, an accused infringer might tell the patent owner that the accused infringer does not believe that it infringes and that the patent owner has made no showing of infringement. The burden will then shift back to the patent owner to show infringement.

- **Develop and communicate substantive defences.**

Where a patent owner has provided more substantive evidence or arguments of alleged infringement before filing suit, accused infringers are likely required to be more diligent today regarding a response. Accused infringers may need to assess the risk of infringement by evaluating potential non-infringement and/or invalidity defences, and considering potential design-around options. While these should be done for internal purposes, communicating such efforts to the patent owner may support a finding of good faith, avoiding a wilfulness finding or enhancement if litigation ensues.

- **Engage in licensing discussions.**

Where an accused infringer engages in substantive negotiations for a licence, the party should make clear that an agreement was sought “as an alternative to unaffordable or expensive litigation costs,” which may support an infringer’s good faith.<sup>7</sup>

- **Document and preserve records of independent R&D efforts and risk assessment.**

Accused infringers should preserve records that evidence independent product development, which can be used to show good faith and rebut accusations of copying. Accused infringers should also

preserve records of efforts to investigate the patents, to develop non-infringement positions, and any determination that it is not unreasonably risky to continue the accused conduct. Such records may be used to support good faith, or show that the risk of infringement was not unreasonable. Similarly, accused infringers should document any cost-benefit analysis used in deciding the scope of their investigation into the patents. While such analysis may not suffice to avoid a wilfulness finding, it could be relevant to the enhancement determination by showing that reasonable efforts were made given the accused infringer’s size and financial circumstances.

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- **Consider PTAB proceedings.** Today Patent Trial and Appeal Board (PTAB) proceedings, including *inter partes* review, covered business methods and post-grant review, are an important consideration in any patent-related dispute. An accused infringer might consider preparing and filing a PTAB invalidity proceeding, or even relying on a PTAB proceeding that was initiated by another, to demonstrate good faith. But note that, even where the PTAB has instituted proceedings or rejected claims, it might not be enough to avoid a wilfulness finding. At least one prior case involving the pre-America Invents Act reexamination proceedings (under the “substantial new question of patentability” standard) found that such proceedings were “not probative of unpatentability.”<sup>8</sup>

As a final note, the standard post-*Halo* is evolving. Relying on *Halo*, litigants in some jurisdictions have successfully moved to dismiss charges of wilfulness where such allegations were threadbare and showed little more than mere knowledge.<sup>9</sup> Others have secured jury instructions that at least exclude the phrase “reckless” or “reckless disregard”, and, at best, draw on *Halo*’s description of the relevant conduct: “wilful, wanton, malicious, bad-faith, deliberate, consciously wrongful, flagrant, or – indeed – characteristic of a pirate.”<sup>10</sup>

### Footnotes

1. 136 S Ct 1923 (2016).
2. 497 F3d 1360 (Fed Cir 2007).
3. *Halo*, 136 S Ct at 1932–33.
4. *Id.* at 1934–35 (internal quotation marks and citation omitted).
5. 970 F2d 816, 826–27 (Fed Cir 1992), *abrogated in part on other grounds*.
6. See *Norian Corp v Stryker Corp*, 363 F3d 1321, 1332 (Fed Cir 2004) (citing *Ajinmoto Co v Archer-Daniels-Midland Co*, 228 F3d 1338, 1351–52 (Fed Cir 2000)); *accord Halo*, 136 S Ct at 1936 (Breyer, J, concurring).
7. *Eg, King Instrument Corp v Otari Corp*, 767 F2d 853, 867 (Fed Cir 1985), *abrogated on other grounds as recognised by Medicines Co v Hospira, Inc*, 827 F3d 1363, 1372 (Fed Cir 2016).
8. *Hoechst Celanese Corp v BP Chemicals Ltd*, 78 F3d 1575, 1584 (Fed Cir 1996).
9. *Eg, CG Tech Dev, LLC v Big Fish Games, Inc*, No 2:16-cv-00857-RJ-VCF, 2016 WL 4521682, at \*14 (D Nev 29 Aug 2016).
10. *Halo*, 136 S Ct at 1932; see, *eg, Cellular Commc’ns Equip LLC v Apple Inc*, No 6:14-cv-251, Final jury instructions at 15 (ED Tex 14 Sept 2016) (adopting variant of *Halo*’s language); *Johnstech Int’l Corp v JF MicroTech. SBDN BHD*, No 14-cv-02864-JD, Order at 2 (ND Cal 15 Sept 2016) (eliminating “reckless” and “reckless disregard” from instructions).

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