

Do Accused Infringers Need an Opinion of Counsel to Avoid Increased Infringement Damages After *Halo v. Pulse*?

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Introduction

For over 50 years, parties accused of patent infringement in the United States have acted under the possibility of a district court award of up to triple actual damages, typically for willful infringement, under 35 U.S.C. § 284. In the most recent nine years, the number of claims or willful or intentional infringement, either pleaded or proven, plummeted as patent owners labored under a high bar imposed by the Court of Appeals for the Federal Circuit in the *Seagate* case. But in a pair of cases decided in June 2016, the Supreme Court rejected *Seagate* in favor of a far more flexible approach. What should parties do when they are accused of patent infringement, or merely aware of unasserted patents owned by competitors or “trolls”? Can they insulate themselves from the specter of “treble damages” by obtaining an opinion of non-infringement from counsel? Are there any other options to reduce risk? This article will explore these questions and provide recommendations.

Discussion and Recommendations

Practice Developments Through *Seagate*

Section 284 of the Patent Act provides that, in a case of infringement, courts “may increase the damages up to three times the amount found or assessed.” 35 U.S.C. §284. Increased damages have been available in patent cases by statute since 1793; originally mandatory if infringement was proven, they became available in the court’s discretion in 1836, a principle that was restated in the 1952 Patent Act. Congress added a twist in 2011, passing legislation providing that the failure to obtain an opinion of counsel, or to present evidence of such advice, could not be introduced as a fact tending to show willful infringement. 35 U.S.C §298. That statute effectively reversed the result of *Underwater Devices Inc. v. Morrison-Knudsen Co.*, 717 F. 2d 1380 (1983), which had created an affirmative duty to obtain advice of counsel prior to initiating any possible infringing activity.

In 2007, the Court of Appeals for the Federal Circuit adopted a two-part test for determining whether a district court could increase damages under §284. First, the patent owner had to “show by clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent.” *In re Seagate Technology, LLC*, 497 F. 3d 1360, 1371. Second, the patentee had to show, also by clear and convincing evidence, that the risk of infringement “was either known or so obvious that it should have been known to the accused infringer.” *Id.* Moreover, the Federal Circuit adopted a complex protocol for appellate review of district court decisions in which three different types of review were applied to different sub issues embodied in the two-part test.

Based on other language in *Seagate*, practitioners and academics tended to summarize the requirements as whether the accused infringer had acted with “reckless disregard” of patent rights—a high standard, which had the immediate effect of reducing the number of times that patent owners pleaded or prevailed on claims of willful infringement. In addition, the adoption of a “clear and convincing” burden of proof resulted in the pleading and proof of relatively few claims. Practitioners also tended to view the level of risk involved in performing routine patent novelty searching, or studying patents offered for sale, license or other transactions, as reduced.

***Halo* Replaces *Seagate* with a Broad, Flexible Framework**

The Supreme Court confronted these issues in a pair of cases, in which different patent owners both were denied increased damages under the *Seagate* framework. *Halo Electronics Inc. v. Pulse Electronics, Inc. et al.*, 579 U.S. ____ (2016) (No. 14-1513, slip op. June 13, 2016) (consolidated for decision with *Stryker Corp. et al. v. Zimmer, Inc.*). The Court first noted that §284 specifies that “the court may increase the damages” (emphasis added), and that the word “may” clearly connotes discretion. *Halo, supra*, slip op. at 11. Simultaneously, the Court said that “[d]iscretion is not whim” and “rarely without limits,” even when the law doesn’t spell out any limits. *Id.* Consequently, in the Court’s terms, the exercise of judicial discretion must find some basis in the court’s “considerations” underlying the decision to award increased damages at all. This reasoning, which appears circular, apparently means that an award must have some rational basis arising from the facts of the case, and gives the Court the freedom to reverse awards in future cases if the circumstances appear subjectively insufficient.

The Court then observed that enhanced damages awards must not be commonplace, as they are intended as “punitive” or “vindictive” sanctions for “egregious infringement behavior.” *Id.* Instead, the sanctioned conduct should be “willful, wanton, malicious, bad-faith, deliberate, consciously wrongful, flagrant, or—indeed—characteristic of a pirate.” *Id.* The Court summarized its precedent in reviewing such awards by saying that “such damages are generally reserved for egregious cases of culpable behavior.”

Turning to the *Seagate* standard, the Court held it to be unduly rigid as it impermissibly encumbered the statutory grant of discretion to district courts. *Halo, supra*, slip op. at 12. In other words, “may” in the statute means “may,” and the Federal Circuit should not have constrained the court’s discretion by imposing a rigid two-part test. The Supreme Court was specifically concerned that the *Seagate* test, with its requirement for a showing of objective recklessness, imposed an unnecessary fact-finding hurdle that would complicate cases involving the most culpable, wanton and malicious infringer.

The Court then directly addressed the common use of a patent attorney’s opinion of non-infringement to rebut evidence of willful infringement. The Court opined that an infringer who could muster a reasonable, but unsuccessful, defense in an infringement trial using an opinion would insulate the infringer from enhanced damages, even if the infringer did not act on the basis of the defense or even knew about 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.” *Halo*,

supra, slip op. at 13. With that stinging language, the Court appears to say that obtaining an opinion of counsel, on its own, will never automatically preclude a finding of willful infringement.

Interestingly, the Court made no reference to *Commil v. Cisco*, in which it held one year ago that a defendant cannot rely on an opinion of counsel finding a patent invalid (as opposed to not infringed) to show a lack of intent in defending a claim of inducement of infringement. See *Commil USA, LLC v. Cisco Systems, Inc.*, 575 U.S. ____ (2015) (No. 13-896, slip op. May 25, 2015). Inducement claims require intentional action, integrating a requirement to show *scienter* that doesn't exist in direct infringement cases; innocent direct infringement is still infringement. However, in complaining for increased damages, most patent owners will argue that the defendant's conduct was willful or intentional. The question of whether an invalidity opinion has no utility to defeat the *scienter* requirement implicit in a charge of direct, but willful, infringement awaits a different Supreme Court decision. In the meantime, while it is theoretically possible that a patent owner could demand increased damages on the basis of non-willful conduct that was still "egregious," this paper will presume that the serious questions raised by *Commil* effectively render invalidity opinions useless to negate *scienter* in all kinds of cases.

After dismissing the reliance on attorney opinions to show lack of willfulness, the Court turned to other sources of a party's intent—or lack thereof. Senator Howard Baker famously characterized the core inquiry of the Watergate investigation of President Nixon as, "What did the President know and when did he know it?" Similarly, the *Halo* Court noted that "culpability is generally measured against the knowledge of the actor at the time of the challenged conduct." The inquiry will involve "looking to the actor's real or supposed state of mind," or the "defendant's motive or intent." *Id.* Or, the patent owner could show that an entity is reckless if it acts "knowing or having reason to know of facts which would lead a reasonable [person] to realize" that actions are unreasonably risky. *Halo, supra*, slip op. at 14 (citing *Safeco Ins. Co. of America v. Burr*, 551 U.S. 47, 69 (2007)). On the flip side, "[n]othing in *Safeco* suggests that we should look to facts that the defendant neither knew nor had reason to know at the time he acted." *Id.* Consequently, the accused company will need to consider whether, after learning of a patent, it possesses documents or other evidence that could support these indicia of guilt.

Despite the flexibility, broad scope and openness of the *dicta* quoted above, which suggests that a district court can consider almost any facts bearing on culpability, the Court repeated its edict that increased damages "should generally be reserved for egregious cases typified by willful misconduct." Countering the apparent height of this bar, though, the Court lowered the standard of proof to a preponderance of the evidence. *Halo, supra*, slip op. at 15.

The New Role of Opinions in Avoiding Egregious Misconduct After *Halo*

In the aftermath of *Halo*, how should a party accused of infringement, or with knowledge of a patent, seek to avoid a finding of willful infringement or an award of enhanced damages? If a non-infringement opinion isn't enough, then what steps can the company accused of infringement take to show that it shouldn't be assessed enhanced damages? Patent owners, and district courts, will be searching and testing for any available evidence of "egregious infringement behavior," which is "willful, wanton, malicious, bad-faith, deliberate, consciously wrongful, flagrant, or characteristic of a pirate," specifically evidence of the knowledge and intent of the company at the

time it became aware of the patent, and afterward. E-mails, documents and testimony providing a showing of the company's state of mind or motive in conducting business after learning of the patent will be particularly probative. The court is ultimately charged to decide if the company continued providing products or services while knowing or having reason to know of facts which would lead a reasonable company to realize that its actions were unreasonably risky.

To address these issues of conduct, opinions of patent counsel indicating non-infringement, whether from in-house attorneys or someone outside or independent, now have increased value and certainly are far more relevant than they have been in the nine years since *Seagate*. While an opinion sometimes may be acceptable *per se* to the trial court as an indicator that a company acted reasonably, it is the total process of investigation, analysis, executive review and decision that is likely to surround such an opinion with a penumbra of innocence in future cases, because this process is probative of state of mind and intent. As the Supreme Court noted, an opinion that is a superior example of an attorney's ingenuity, yet was not acted upon by the infringer or even known by the infringer, will provide no escape from §284. Instead, this paper contends that the opinion—and the company's conduct in relation to it—should satisfy at least the following four criteria.

First, the opinion must be based upon a thorough investigation of facts relating to the products or services implicated by the subject patent. The right people in the company, with knowledge of how the products or services are structured or function, must be identified, interviewed, and consulted again as the opinion is developed should questions arise. This investigation step serves dual purposes. It develops facts that provide a reasonable basis for a written opinion. It also can unearth any actual knowledge of the company that a patent owner could later use to show unreasonable behavior. For example, it might yield copies of e-mails, memos, specifications or product plans revealing that the company reacted to the patent unreasonably. If the company's files contain an e-mail showing that the patent was known and consciously ignored years ago, the company needs to know now, and respond.

Next, the substantive non-infringement analysis in the opinion must be reasonable and must not strain the credibility of the party giving the opinion. Company personnel involved in the first step above must actually test the reasonableness of the opinion. Unbelievable arguments, contentions not soundly grounded in the patent claims, specification, prosecution and case law, or other "stretches" by counsel to reach the result of the opinion risk a finding that the company engaged in "egregious," "bad-faith," or "consciously wrongful" behavior.

Third, the opinion must be delivered to someone within the company having an executive position sufficiently high that the person's knowledge is commensurate with knowledge of the corporation or other legal entity. As the Supreme Court noted, an opinion that is not known to the accused infringer cannot provide evidence that the party engaged in reasonable behavior; the mere existence of an opinion isn't enough. Therefore, everyone involved in preparation of the opinion must collaborate to ensure that the opinion is properly addressed to, and actually communicated to or received by, a responsible person of authority.

Finally, the opinion must be acted upon. Once the opinion is known to someone high in the company, something must be done with the opinion. The company should schedule a meeting, communicate electronically, or hold a telephone call to review the substance of the opinion, discuss

and decide upon its reasonableness, and determine what next steps to take—as well as whether those steps would appear objectively reasonable for another similarly situated company. And while obtaining an opinion is useful, it is really only one aspect of a larger patent risk assessment that may be necessary to develop a sound case of reasonable behavior that can forestall a finding under §284. Investigation, evaluation of knowledge, study of the opinion, and reasonable responsive action are all part of the equation. Perhaps the greatest value of securing a formal opinion is that it imposes a process and structure on the company that assures a reasonable course of action in total.

Consequences for Patents Identified in Non-Adversarial Transactions

Halo also impacts the analysis of patents that a company learns about through novelty searches, citation by examiners in patent prosecution, sales offers, and license offers. After *Seagate*, some practitioners dialed back their previous advice for engineers, scientists, in-house counsel and other employees to avoid all knowledge of third party patents from any source. Post-*Halo*, this advice needs reconsideration. It will be unclear for some time whether learning about a patent under these circumstances, and not actively investigating infringement, is “consciously wrongful.” Especially given the lowered burden of proof to “preponderance” in *Halo*, avoiding unnecessary exposure to the patents of others now appears advisable again.

In contrast, the conscious discovery of patents through freedom-of-action or right-to-use studies almost certainly mandates far more careful analysis using the four-part process outlined above, because the nature of such studies is to find patents that present either theoretical barriers to market entry or actual infringement risk.

However, the knowledge of patents of others, routinely acquired by outside patent counsel handling patent preparation or prosecution for applicants, appears necessarily outside the universe of acts that could lead to §284 liability. It would simply be impossible for outside counsel to represent corporate applicants if every patent cited in prosecution had to be investigated for infringement risk, or if the failure do so could be “egregious infringement behavior” by the applicant. The Supreme Court’s limitation of increased damages to “egregious cases typified by willful misconduct” should operate to bar claims based on routine prosecution knowledge.

Conclusions

Patent non-infringement opinions have new value after *Halo Electronics Inc. v. Pulse Electronics, Inc. et al.*, provided that the company obtaining the opinion understands its purpose and obtains it as just one part of a larger risk analysis and response. The high hurdle imposed by *In re Seagate LLC* has been cut down, and companies accused of infringement now will be evaluated against a changed standard of behavior, using a lower burden of proof, as district courts and patent owners test whether enhanced damages under §284 should be awarded in an infringement case. Still, the Supreme Court’s emphasis on constraining awards to “egregious cases typified by willful misconduct” should mean that increased damages, or even treble damages, represent genuine risk only in a small minority of cases. Therefore, routine novelty searches and patent prosecution

activities should not implicate *Halo*, but right-to-use studies and other conscious, goal-directed patent discovery activities probably do.

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