

**The Willful Infringement Standard:
Notes on its Development, Impact, and Future Trends**

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I. INTRODUCTION

The concept of enhanced damages is not new to patent law. The Patent Act of 1793 mandated treble damages in any and all successful infringement suits. *See* Patent Act of 1793, § 5, 1 Stat. 322. The Patent Act of 1836 made enhanced damages discretionary. Patent Act of 1836, § 14, 5 Stat. 123.¹ Finally, in 1952, Congress codified the Patent Act and enacted § 284, which provides that, in an infringement case, courts may increase the damages up to three times the amount found or assessed. 35 U.S.C. § 284.

In *In re Seagate Technology, LLC*, the United States Court of Appeals for the Federal Circuit abrogated the long-standing affirmative-duty framework for willfulness determinations, adopting instead a two-part “objective recklessness” test for determining when a district court may increase damages pursuant to § 284, and placing the burden on the plaintiff to prove willful infringement by clear and convincing evidence. 497 F. 3d 1360, 1371 (Fed. Cir. 2007) *abrogated by Halo Elecs., Inc. v. Pulse Elecs., Inc.*, 136 S. Ct. 1923 (2016). In *Halo Electronics Inc. v. Pulse Electronics Inc.*, the Supreme Court of the United States modified, in part, the objective recklessness standard established by the Federal Circuit in *Seagate* in favor of a subjective standard that would be reviewed for abuse of discretion.

¹ In construing the new 1836 provision, the Court explained that the change was prompted by the injustice of subjecting a defendant who acted in ignorance or good faith to the same treatment as the “wanton and malicious pirate.” *Halo Electronics, Inc. v. Pulse Electronics, Inc.*, 136 S. Ct. 1923, 1928 (2013); *Seymour v. McCormick*, 57 U.S. 480, 488 (1853).

This paper provides commentary on the impact and possible consequences of this new standard.

II. THE WILLFUL INFRINGEMENT STANDARD PRIOR TO *HALO*

In 2007, the Federal Circuit in *Seagate* set forth a test for enhanced damages. 497 F. 3d, at 1371. Under this test, plaintiffs seeking enhanced damages had to show that the infringement of their patents was willful.

Willfulness was established using a two-part test. First, patentees had to prove by clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent. Satisfaction of this step was determined without regard to the state of mind of the accused infringer and based on the record developed in the infringement proceeding.²

After establishing the first step, patentees had to show by clear and convincing evidence that the accused infringer knew or should have known of the risk of infringement. After both steps were satisfied the district court would then decide whether to exercise its discretion to award enhanced damages.

Further, under Federal Circuit precedent, an award of enhanced damages was subject to trifurcated appellate review. The first step of *Seagate*—objective recklessness—was reviewed *de novo*; the second—subjective knowledge—for substantial evidence; and the ultimate decision—whether to award enhanced damages—for abuse of discretion. *Halo*, 136 S. Ct., at 1930; see *Bard Peripheral Vascular, Inc. v. W.L. Gore & Assoc., Inc.*, 682 F.3d

² Plaintiffs would not prevail on this objective step if the accused infringer raised a substantial question as to the validity or non-infringement of the patent during the infringement proceedings. *Bard Peripheral Vascular, Inc v. W.L. Gore & Associates., Inc.*, 776 F. 3d 837, 844 (CA Fed. 2015). It was immaterial that the accused infringer was unaware of the arguable defense when he acted, so long as it was raised during the infringement proceedings. See *Spine Solutions, Inc. v. Medtronic Sofamor Danek USA, Inc.*, 620 F.3d 1305, 1319 (C.A.Fed.2010); *Seagate*, 497 F.3d, at 1371.

1003, 1005, 1008 (C.A.Fed.2012); *Spectralytics, Inc. v. Cordis Corp.*, 649 F.3d 1336, 1347 (C.A.Fed.2011).

III. CURRENT STANDARD AS SET BY *HALO*

In *Halo*, the Supreme Court evaluated the *Seagate* Test for willful infringement and made three fundamental changes to the standard. The changes reflect a broader desire by the Court to move away from the bright-line rigid rules set by the Federal Circuit standard and towards a more discretionary standard, with a greater focus on subjective culpability.

The Court rejected the first step, the objective recklessness prong, of the willful infringement test under *Seagate*. The court reasoned that this step allowed for “wanton and malicious pirate[s] who intentionally infringe[] 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,” 136 S. Ct. at 1932, to evade punishment.³ The Court explained that: “In the context of such deliberate wrongdoing . . . it is not clear why an independent showing of objective recklessness—by clear and convincing evidence, no less— should be a prerequisite to enhanced damages.” *Id.* Further, the Court held that the determination of willfulness cannot take into account any defenses that the accused infringer lacked knowledge of during the alleged infringement. The Court explained that this was in line with the general

³ This analysis of the Court here mirrors the Court’s analysis of the two-part test for determining when a case is exceptional, and therefore eligible for an award of attorney’s fees—that the Court rejected in *Octane Fitness, LLC v. ICON Health & Fitness, Inc.* 134 S. Ct. 1749, 1757 (2014). There, the court reasoned that subjective bad faith alone could warrant a finding of a case being exceptional. Similarly, here, the Court held that an accused infringer’s subjective willfulness may warrant enhanced damages, without regard to whether the infringement was objectively reckless.

understanding of culpability, which is measured based on the knowledge of the actor at the time of the challenged conduct. *Halo*, 136 S. Ct., at 1933.

The court also lowered the burden of proof for willful infringement determination from the clear and convincing evidence standard to the preponderance of the evidence standard. *Halo*, 136 S. Ct., at 1934. The Court reasoned that there was neither anything in the Patent Act, nor a historical practice, that supported a higher standard of proof for a finding of willful infringement.⁴

Finally, the Court rejected *Seagate*'s trifurcated appellate review and tightened the appellate review standard for the award of enhanced damages to a single abuse of discretion standard. The Court indicated that this was necessary in light of § 284 of the Patent Act which gives district courts discretion in meting out enhanced damages. *Halo*, 136 S. Ct., at 1934.⁵

IV. COMMENTS ON POSSIBLE IMPACT AND CONSEQUENCES OF THE HALO STANDARD

(A) The Decision-maker: Role of Juries in finding Willfulness

Prior to *Halo*, in applying the *Seagate* standard to determine willfulness, district courts regularly decided the first step as a matter of law because it was an

⁴ Here too, the reasoning behind lowering the burden of proof for proving willfulness mirrors the reasoning in *Octane Fitness*. The Court in *Octane Fitness* lowered the burden of proof for awards of attorney's fees in exceptional cases because the statute at issue provided no basis for imposing the higher standard of clear and convincing evidence. 134 S. Ct., at 1758. The Court used the same reasoning here to lower the burden for finding willfulness.

⁵ The Court again built on its holding in *Octane Fitness*, which rejected a multipart standard of review, to reject the trifurcated appellate review set by the Federal Circuit. In both cases, the court explained that the respective statutes committed the determination of the issues (awarding of attorney's fees and enhanced damages) to the district court's discretion and, hence, the appropriate standard on review must be abuse of discretion. *See Halo*, 136 S. Ct., at 1934; *Octane Fitness*, 134 S. Ct., at 1748.

objective prong with no relation to the subjective state of mind of the alleged infringer.

Furthermore, alleged infringers that brought summary judgment motions of no willful infringement under the *Seagate* standard won those motions over 40% of the time. DOCKET NAVIGATOR, <https://www.docketnavigator.com/browse/results/b23caf95-7257-48e5-902f-e3e70ffeb842> (last visited Sep. 26, 2017). A significant factor was that under the *Seagate* test, accused infringers could survive the objective reasonableness prong by presenting a viable invalidity or non-infringement defense, even if it was one of which they had no knowledge prior to the infringement proceedings.

After *Halo*, however, willfulness has become more substantially a matter of fact for juries (triers of fact) to decide at trial. Without the objective recklessness prong that *Seagate* established and *Halo* struck down, willfulness turns on subjective bad faith, which is an issue of fact.

Consequently, district courts have increasingly stopped deciding the issue of willfulness via pre-trial motions and have committed the issue to juries as one of fact. See *Sociedad Espanola v. Blue Ridge X-Ray Co.*, 226 F.Supp.3d 520, 531 (W.D.N.C. 2016); *Presidio Components, Inc., v. Am. Tech. Ceramics Corp.*, No. 14-cv-02061, 2016 WL 4377096, at *9 (S.D. Cal. August 17, 2016).

The Federal Circuit has also stated, in the context of finding substantial evidence to support knowledge of the asserted patent, that the Court does “not interpret *Halo* as changing the established law that the factual components of the

willfulness question should be resolved by the jury.” *WBIP, LLC v. Kohler Co.*, 829 F.3d 1317, 1341 (Fed. Cir. 2016). The Federal Circuit there emphasized that: “Proof of an objectively reasonable litigation-inspired defense to infringement is no longer a defense to willful infringement.” *Id.*

Judges, however, still maintain discretion in determining when to award enhanced damages upon a finding of willful infringement. Courts have frequently utilized the factors set forth in *Read Corp. v. Portec, Inc.* for this determination. The *Read* factors serve as guidelines rather than as dispositive factors. *See Finjan, Inc. v. Blue Coat Sys., Inc.*, No. 13-CV-03999-BLF, 2016 WL 3880774, at *16 (N.D. Cal. July 18, 2016); *Read v. Porter Inc.*, 970 F.2d 816, 825 (Fed. Cir. 1992).⁶ Ultimately, egregiousness remains the touchstone for the discretionary award of enhanced damages. *Trustees of Boston Univ. v. Everlight Elecs. Co.*, 212 F. Supp. 3d 254, 257 (D. Mass. 2016).⁷ Finally, the Federal Circuit has also clarified that though the objective reasonableness of litigation defenses cannot be used as a defense to willfulness, it can be considered as a factor in determining

⁶ The factors enumerated in *Read* are:
(1) whether the infringer deliberately copied the ideas or design of another;
(2) 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;
(3) the infringer's behavior as a party to the litigation;
(4) Defendant's size and financial condition;
(5) Closeness of the case;
(6) Duration of defendant's misconduct;
(7) Remedial action by the defendant;
(8) Defendant's motivation for harm; and
(9) Whether defendant attempted to conceal its misconduct. *Read*, 970 F.2d, at 827.

⁷ In *Halo*, the court described the sort of conduct warranting enhanced damages as willful, wanton, malicious, bad-faith, deliberate, consciously wrongful, flagrant, or characteristic of a pirate. 136 S. Ct., at 1932.

whether to grant a discretionary award of enhanced damages. *WesternGeco L.L.C. v. ION Geophysical Corp.*, 837 F.3d 1358, 1363 (Fed. Cir. 2016).

(B) The Numbers: Enhanced Damages Awards In The Fifteen Months Before and After Halo

The effect of *Halo* on the final outcome—enhanced damages awards—remains unclear. The removal of the objective prong under *Halo* certainly makes it easier than under the *Seagate* standard to establish willfulness. It remains to be seen whether the new test—with a lower evidentiary standard of preponderance of evidence and jury instructions focusing on subjective bad faith and culpable conduct—when provided to juries will result in more findings of willfulness.⁸ Furthermore, even if there is an increase in willfulness findings by juries, it remains to be seen whether it will likewise translate into an increase in enhanced damages awards by judges. Moreover, any increase in enhanced damages awards at the trial level will likely be upheld on appeal under the new abuse of discretion standard of appellate review.

A survey of enhanced damages awards for a period of fifteen months before and after *Halo* seems to indicate an increase in the number of cases that resulted in an enhanced damages award.⁹ DOCKET NAVIGATOR,

⁸ As of September 2017 there seemed to be over a 30% increase in jury verdicts finding willfulness. However, this is based on a limited sample size of 31 verdicts. It remains to be seen if this trend will continue as more cases reach juries on the issue of willfulness.

⁹ As of September 2017, the number of cases in which enhanced damages were awarded had nearly doubled. This statistic, however, does not take into account awards that are currently being appealed. Further, fifteen months is too small of a sample size to gather a rate of increase that is reflective of the impact of the changes to the willfulness standard that *Halo* provides.

<https://www.docketnavigator.com/browse/results/05a32b3b-acdf-8c6f-1f03-13a5cd593c9e> (last visited Sep. 26, 2017); DOCKET NAVIGATOR, <https://www.docketnavigator.com/browse/results/b1a12def-83f7-e757-8b75-a8564a643896> (last visited Sep. 26, 2017). *See also* Matthew Powers and Ted Nissly, *Willfulness and Enhanced Damages Trends Post-Halo*, 2018 AIPLA Mid-Winter Institute (collecting willfulness and enhanced damages statistics in the pre-*Halo* and post-*Halo* periods). As more willful infringement claims are decided a more definitive trend between jury findings and enhanced damages determinations will emerge.

(C) Renewed Emphasis on Counsel Opinions And Investigations

In *Halo*, the Supreme Court made clear that it would no longer be a bar to enhanced damages that a defendant was able to raise reasonable defenses at trial without regard to whether they were successful and without regard to whether the defendant's infringing conduct had been reasonable in light of what the defendant knew at the time:

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.

Halo, 136 S. Ct. at 1933.

Courts, in following the Supreme Court's ruling in *Halo*, have increasingly sent willfulness determinations to the jury, but have reserved the

determination of enhanced damages for the bench. Though courts have been relying on all of the *Read* factors while evaluating the egregiousness of conduct, one factor has played a key role in the courts' determinations: whether the infringer, upon knowing about the assertion that they were infringing, investigated the patent and formed a good faith belief that it was invalid or that it was not infringed.

Since *Halo*, courts have increasingly declined to grant enhanced damages, even after a finding of willfulness by a jury, when the alleged infringer obtained timely advice of counsel or conducted a reasonable investigation of the asserted patent.¹⁰ In most cases where the alleged infringer failed to timely seek advice of counsel or investigate the patent, however, juries have almost always found infringement and courts have awarded enhanced damages.¹¹

Thus, the emphasis that *Halo* demands on pre-litigation knowledge has resulted in the reemergence of a need for counsel advice or other ways of documenting that an accused infringer's conduct when confronted with a demand is reasonable under the circumstances. While not a requirement, the value courts

¹⁰ The courts have in fact cited to the investigation or counsel advice as a factor weighing against enhanced damages. See *Sprint Commc'ns Co. L.P. v. Time Warner Cable, Inc.*, No. 11-2686-JWL, 2017 WL 978107, at *14 (D. Kan. Mar. 14, 2017); *Sociedad Espanola*, 226 F.Supp.3d, at 532; *Greatbatch Ltd. v. AVX Corp.*, No. CV 13-723-LPS, 2016 WL 7217625, at *6 (D. Del. Dec. 13, 2016); *Trustees of Boston Univ.*, 212 F. Supp. 3d, at 257.

¹¹ See *Barry v. Medtronic, Inc.*, No. 1:14-CV-104, 2017 WL 1536492, at *5 (E.D. Tex. Apr. 20, 2017); *NobelBiz, Inc. v. Global Connect, L.L.C.*, No. 12-CV-244 (E.D. Tex. Oct. 27, 2016); *Imperium IP Holdings (Cayman), Ltd. v. Samsung Elecs. Co.*, No. 14-CV-371 (E.D. Tex. Aug. 24, 2016). See also 35 U.S.C. § 298 (“The failure of an infringer to obtain the advice of counsel with respect to any allegedly infringed patent, or the failure of the infringer to present such advice to the court or jury, may not be used to prove that the accused infringer willfully infringed the patent or that the infringer intended to induce infringement of the patent.”).

are placing on counsel opinions while determining whether to enhance damages is making it an important precaution for alleged infringers when faced with willfulness claims.¹²

- (D) Does *Halo* herald a *de facto* return to practice in the *Underwater Devices* era or more efficient resolution of meritorious claims?

The replacement of the *Seagate* standard with the less rigid standard in *Halo*, including the lower standard of proof and the renewed focus on how an accused infringer behaved at the time of the infringement, means that, at least until the treatment of different levels of conduct by the courts has had more time to develop, patent defendants will be less able to predict willfulness outcomes simply by relying on the reasonableness of their trial defenses and there will be a renewed emphasis on establishing the reasonableness of defendants' conduct in advance.

A consequence of the adoption of *Halo* standard, therefore, one possibility is that parties accused of infringement will resort to practices that shielded them under the earlier standard of *Underwater Devices Inc. v. Morrison-Knudsen Inc.* standard. 717 F.2d 1380, 1389-90 (Fed. Cir. 1983), *overruled by Seagate*, 497 F.3d, at 1360. In *Underwater Devices*, the Federal Circuit established that a potential infringer has an affirmative duty to exercise due care in determining whether it is engaging in infringing activities. 717 F.2d, at 1389-90. This included

¹² In *Barry v. Medtronic, Inc.*, the court expressed surprise at the fact that the defendant had not sought opinion of counsel given the size and scope of their intellectual property portfolio. No. 1:14-CV-104, 2017 WL 1536492, at *5.

an affirmative duty to seek and obtain a competent legal advice from counsel before the initiation of any possible infringing activity. *Underwater Devices*, 17 F.2d, at 1390.

The Federal Circuit would later observe that the affirmative due care standard under the *Underwater Devices* standard led to “abusive gamesmanship.” *Seagate*, 497 F.3d, at 1385. It was argued to created perverse results whereby parties were discouraged from finding and reviewing patents for fear of enhanced damages that could stem from it. Brief for Petitioner at 6-7, In re Seagate 497 F. 3d 1360 (Fed. Cir. 2007) No. 830 2007 WL 1032692. On the one hand, patent holders could lay the foundation for a willfulness charge by simply sending an assertion letter. For defendants, on the other hand, the affirmative duty to seek advice of counsel increased the cost of defending weak claims.

While *Halo* did not reestablish an affirmative duty for patent defendants, how a would-be defendant responds to a demand letter will be evidence of whether the post-*Halo* standard has been met. This is consistent with the Court’s statement: “The subjective willfulness of a patent infringer, intentional or knowing, may warrant enhanced damages, without regard to whether his infringement was objectively reckless.” *Halo*, 136 S. Ct. at 1933. This renewed focus on the subjective state of the infringer rather than on whether the infringer musters a reasonable defense at trial is reflected by the apparent return to an emphasis on counsel opinions by recent courts as discussed in the previous section. However, it is important that the Supreme Court did not actually adopt the “affirmative duty” of *Underwater Devices*. Rather, it placed a focus on the

subjective conduct of the accused infringer in a way that may simply restore district courts' discretion under the enhanced damages statute to consider all of the defendant's conduct. Thus, it is also possible that *Halo* will encourage defendants faced with meritorious claims to seek earlier efficient resolution, without materially aiding patent holders without meritorious claims.

The Supreme Court in *Halo*, perhaps recognizing that willful infringement was often successful even in garden-variety cases under the *Underwater Devices* standard, stressed that enhanced damages should be reserved for egregious cases. *Halo*, 136 S. Ct., at 1935. Justice Breyer, joined by Justices Alito and Kennedy, concurred to emphasize that the Federal Circuit should use its own experience and expertise to ensure that district courts do not abuse their discretion in meting out enhanced damages despite a finding of willfulness. *Halo*, 136 S. Ct., at 1938.

In these early days it remains to be seen whether *Halo* heralds a return to the gamesmanship of the *Underwater Devices* era or a more substantive regime in which enhanced damages are used as an incentive to resolve meritorious claims efficiently while not at the same time encouraging meritless claims. If *Seagate* threw out the good with the bad, it remains to be seen whether the new standard under *Halo* can enable enhanced damages to play a useful role in appropriate cases without the vicissitudes of the *Underwater Devices* era; and whether rigorous review of discretion by the Federal Circuit can help achieve uniformity of expectations.

V. CONCLUSION

The Supreme Court of the United States, in *Halo Electronics Inc. v. Pulse Electronics Inc.*, made three changes to the willfulness determination standard: lowering of the evidentiary standard from clear and convincing evidence to preponderance of the evidence, removal of the objective recklessness prong of the test that was adopted by the Federal Circuit, and tightening the standard of appellate review to abuse of discretion. The impact of these changes has already begun to manifest. Willfulness claims increasingly reach juries. The claims themselves should be easier to prove due to a lower evidentiary standard and an emphasis away from reasonableness of trial defenses and toward the knowing conduct of the party. Moreover, any enhanced damage awards will be harder to overturn on appeal under an abuse of discretion standard. It remains to be seen how the new *Halo* standard will be put to use by patentees and how accused infringers will modify their pre-litigation behavior to shield themselves from the possibility of enhanced damages in the future.