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## PATENTS

Defending Against Willfulness After *Halo*

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The Supreme Court's decision in *Halo Elecs., Inc. v. Pulse Elecs., Inc.* upended the defenses an accused infringer can rely on to defend itself from a charge of willful infringement (and the possibility of treble damages). 136 S. Ct. 1923, 118 U.S.P.Q.2d 1761 (2016). Under the U.S. Court of Appeals for the Federal Circuit's willfulness test prior to *Halo*, a defendant could defeat willfulness by relying on objectively reasonable defenses to infringement or by raising a substantial question as to the validity of the patent. *In re Seagate Tech., LLC*, 497 F.3d 1360, 1371, 83 U.S.P.Q.2d 1865 (2007) (overruled-in-part). Only if the court determined that the patent-holder plaintiff had met its burden of proof on this objective prong of the willfulness test did the subjective understanding of the accused infringer—i.e., whether

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the particular defendant knew or should have known that it was infringing a valid patent—come into play.

Because the objective prong of the *Seagate* test was a question of law for the court's sole determination, it was possible for a defendant to have willfulness disposed of on summary judgment so that the question of its subjective intent would never get to a jury. This was so even if the defendant had intentionally or knowingly infringed the patent.

In *Halo*, the Court found the *Seagate* willfulness test to be “unduly rigid” and specifically rejected the objective prong of the test as a way to “get out of jail free.” *Halo*, 136 S. Ct. at 1932. Thus, after *Halo*, the willfulness inquiry again focuses solely on the defendant's subjective willfulness. *Halo* also focused on the high bar for an award of enhanced damages after a finding of willful infringement, emphasizing that “such punishment generally be reserved for egregious cases typified by willful misconduct.” *Id.* at 1934.

Of course, the determination of enhanced damages is made by the judge, not the jury. So what is less clear from *Halo*—as reflected by numerous post-*Halo* district court decisions debating whether adequate pleading of willfulness requires pleading of egregiousness—is whether a jury determining willfulness will be instructed that it must find egregious conduct, or whether the “egregiousness” determination only comes into play when the district court, after a jury willfulness verdict, is considering enhancing damages. Regardless, the sole focus of any willfulness determination is once again the accused infringer's subjective intent. And potential accused infringers need to focus not just on whether they could ultimately face enhanced damages liability, but also on the willfulness evidence that the jury deciding their fate on infringement liability is going to hear.

In many cases, a patentee pleading willful infringement can present evidence that the defendant had knowledge of the asserted patent and continued its allegedly infringing activity in the face of that knowledge. This evidence alone has, in some post-*Halo* cases, been found to be enough to get the question of willfulness before the jury. See, e.g., *Elbit Sys. Land and C4I Ltd. v.*

*Hughes Network Sys., LLC*, 2:15-CV-00037-RWS-RSP, slip op. at 11 (E.D. Tex. June 20, 2017) (denying summary judgment of no willfulness where there was evidence defendant knew of patent and defendant offered no evidence regarding its executives' subjective beliefs); *Erfindergemeinschaft UroPep GbR v. Eli Lilly and Co.*, 2:15-CV-1202-WCB, slip op. at 19 (E.D. Tex. Mar. 3, 2017) (summary judgment of no willfulness denied where no evidence presented going to subjective beliefs of decision makers). Thus, the jury deciding the defendant's fate on infringement and validity issues will likely hear evidence that the defendant proceeded with its accused conduct all the while knowing about the plaintiff's patent. Even the best-intentioned, most properly instructed juror may find it difficult to divorce her consideration of the defendant's subjective intent from her decision-making on infringement liability.

How can a defendant respond to this evidence so as to avoid the possibility of tainting the juror's views of it?

### Defending Against Willfulness by Relying on Advice of Counsel

There is no affirmative duty to obtain an opinion of counsel to avoid a willfulness determination, but it remains a fact that a competent and timely opinion of counsel that the subject patent was invalid and/or not infringed, reasonably relied upon by the defendant's relevant decision maker, can be strong evidence that the defendant lacked the bad faith needed for its actions to rise to the level of willful infringement. And, importantly, by relying on a counsel opinion, the defendant is able to present testimony from witnesses, such as the opinion counsel, to buttress the defendant's non-infringement or invalidity story. This testimony can address not only the defendant's subjective willfulness, it can bolster testimony from expert witnesses on the underlying liability issues.

But the pros and cons of reliance on advice of counsel must be carefully weighed. If the defendant waives privilege to rely on a counsel opinion, it waives privilege on all communications, including any advice it received from in-house counsel and documents reflecting the advice, that relate to the same subject matter of the opinion. *In re EchoStar Commc'ns. Corp.*, 448 F.3d 1294, 1299, 78 U.S.P.Q.2d 1676 (Fed. Cir. 2006). Opinion counsel will be required to waive work product relating to the opinion, though the scope of work product waiver is generally narrower. *Id.* at 1302-04. Thus, any advice the defendant received that contradicts the opinion letter will be produced.

The opinion drafter and the recipient of the opinion are likely to be deposed, as is the reliance witness who made the business decision to launch a product or to continue to sell a product. The ability of these witnesses to withstand deposition and possible cross-examination at trial must be considered. The strength and competence of the opinion also needs to be evaluated. If the opinion is based on a noninfringement or invalidity position that the defendant is not advancing in the litigation, for example, that may, properly or not, call into question the reasonableness of the defendant's reliance on the opinion.

### Defending Against Willfulness Without Relying on Advice of Counsel

There may be situations where a defendant either did not obtain an opinion of counsel or chooses not to rely on an opinion to defend against willfulness. For example, it can be argued that an accused infringer who does not know about an asserted patent before being sued should not be liable for willful infringement since knowledge of the patent is still a prerequisite to proving willfulness after *Halo*. *Halo*, 136 S. Ct. at 1932-33; *WBIP, LLC v. Kohler Co.*, 829 F.3d 1317, 1341, 119 U.S.P.Q.2d 1301 (Fed. Cir. 2016).

Even if a defendant did have pre-suit knowledge of a patent, that alone may be inadequate to support a willfulness finding. The *Erfindergemeinschaft UroPep GbR v. Eli Lilly and Co.* case is instructive on this point.

Lilly was aware of UroPep's patent before the suit was filed because it received a single page notice letter from UroPep informing Lilly about UroPep's patent and stating that one of Lilly's products may require a license to UroPep's patent. 2:15-CV-1202-WCB, slip. op. at 3-4 (E.D. Tex. May 18, 2017). The notice letter did not provide a detailed explanation of how Lilly's product infringed UroPep's patent, nor did it address the validity of UroPep's patent. The notice letter was sent three years after Lilly launched the accused product, and Lilly did not respond to it. At trial, Lilly offered no explanation for its decision not to respond to the notice letter, nor did it offer evidence of its pre-suit analysis of the patent. Instead, it relied on the fact that UroPep bore the burden of proof on willfulness and argued that UroPep failed to carry that burden. Judge William C. Bryson, sitting by designation, agreed with Lilly. *Id.* at 4. At trial, although he had previously denied summary judgment of no willfulness as indicated above, Judge Bryson found UroPep's evidence of willful infringement so lacking that he did not submit the issue of willfulness to the jury since UroPep did not show that Lilly's conduct rose to the level of egregiousness, as required by *Halo*. *Id.*

In cases where a defendant had pre-suit knowledge of the asserted patent and other evidence is produced during discovery that may indicate (or a plaintiff could argue indicates) intentional infringement, bad-faith, copying, or other malicious behavior, it is still possible for a defendant to rebut a charge of willful infringement and not waive attorney-client privilege or attorney work product in doing so. For example, many technology companies routinely receive dozens of notice letters from non-practicing entities. In this industry, it may be argued that it is impractical for these companies to seek an opinion of counsel in response to every notice letter. Moreover, for small companies with limited resources, it is not economically feasible to obtain an opinion of counsel letter, which can cost \$15,000 on average, or as much as \$50,000 or \$100,000 depending on the complexity of the patent, in response to every threat. American Intellectual Property Law Association, Report of the Economic Survey (2015) at 29; Kimberly A. Moore, Empirical Statistics on Willful Patent Infringement, 14 Fed. Cir. Bar J. 227, 228 n.5 (2004).

Instead of relying on an opinion of counsel, a well-prepared fact witness may be able to provide testimony about the company's adherence to standard industry practice about reviewing patents and launching products. In the technology sector, for example, it may be

common to review patent literature in the ordinary course of a company's business and rely on in-house technical expertise to evaluate infringement risks. A well-prepared fact witness may be able to provide this testimony, as well as testimony about the company's policy to not knowingly infringe the valid patent rights of others.

Testimony such as this will walk a (fine) line between factual information and attorney-client privileged communications, but, if the witness is prepared carefully, he can stay on the side of providing fact testimony without waiving privilege.

### 35 U.S.C. § 298 and Adverse Inferences

It is tempting to think that a defendant should not fear that its failure to obtain an opinion of counsel or that its decision not to rely on an opinion of counsel to defend against willfulness will be used against it. Enacted as part of the America Invents Act, 35 U.S.C. § 298 provides:

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.

Section 298, which applies to all civil cases filed on or after Jan. 14, 2013, codifies Federal Circuit case law that an accused infringer does not have an affirmative duty to obtain advice of counsel, and that if a party obtains advice of counsel but does not waive that advice, an adverse inference with respect to willful infringement does not follow. *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337, 1343, 72 U.S.P.Q.2d 1560 (Fed. Cir. 2004); *Seagate*, 497 F.3d at 1369-70.

But a jury can be instructed to consider a defendant's failure to rely on advice of counsel for another reason unrelated to drawing an adverse inference, and the protection afforded by Section 298 may only go so far. Pre-AIA case law makes clear that juries may be instructed that, in determining subjective willfulness, they may consider the "totality of circumstances" which include, for example, whether the defendant relied on competent legal advice and whether the defendant acted in accordance with standards in its industry. *Seagate*, 497 F.3d at 1369; *Read Corp. v. Portec, Inc.*, 970 F.2d 816, 826, 23 U.S.P.Q.2d 1426 (Fed. Cir. 1992). And post-AIA (and thus post-Section 298) model jury instructions from respected organizations also include the infringer's "good faith belief" as one of the factors to be considered under the "totality of the circumstances" test. See AIPLA Model Jury Instructions at 12.0, 12.1 (2016); see also Fed. Cir. Bar Assoc. Model Patent Jury Instructions at 3.10 (2016).

A plaintiff may argue that, consistent with Section 298, it may present evidence or argument to the jury that the defendant presented no evidence that it sought to avoid infringing the asserted patent. A plaintiff may

also argue that for a particular industry, it is standard industry practice to monitor competitors' patents and seek legal advice about those patents before launching a product. A savvy plaintiff may argue to the jury that a defendant's silence as to its compliance with industry standards suggests wanton or willful conduct. Thus, at least until there is more case law developing what Section 298 does and does not prohibit, it may be possible for a jury to be instructed that a lack of an opinion of counsel is one factor to be considered in determining the state of mind of the defendant in a willfulness determination. Defendants, and prospective defendants, need to keep this in mind in structuring their programs for evaluating third party patents.

Moreover, several district courts have signaled that the protections afforded by Section 298 disappear when a defendant rebuts willfulness allegations by referring to an opinion letter but not actually waiving privilege to rely on the letter. See *PPC Broadband, Inc. v. Corning Optical Commc'ns. RF, LLC*, 193 F. Supp. 3d 133, 142, 2016 BL 192834 (N.D.N.Y. 2016); *Carson Optical Inc. v. eBay Inc.*, 202 F. Supp. 3d 247, n.11, 2016 BL 266936 (E.D.N.Y. 2016); *Ultratec, Inc. v. Sorenson Commc'ns, Inc.*, 13-cv-346-bbc, D.I. 563, slip. op. at 3-4 (W.D. Wis. Oct. 3, 2014). For example, in *PPC Broadband*, the defendant's company representative testified that he consulted with counsel after the lawsuit was filed, and based on those conversations, concluded that the defendant could continue selling the accused product because it did not infringe the asserted patent. 193 F. Supp. 3d at 142. The defendant objected to questions on cross-examination about the substance of the conversations with counsel so as to preserve the attorney-client privilege. During the plaintiff's closing argument, it referred to the fact that the defendant conferred with counsel after being sued but that the defendant did not reveal what advice it received from counsel and whether that advice was favorable or unfavorable. The district court ruled that the plaintiff's statements in closing argument did not violate the protections afforded by Section 298 because the defendant opened the door by relying on advice of counsel to rebut charges of willfulness. Thus, the plaintiff was permitted to argue to the jury that the defendant's withholding from the jury an opinion of counsel was circumstantial evidence of willful infringement.

### Summary

In sum, the standard and good business practices of responsible parties operating in a field of competitive patents will always include practices for avoiding infringement of valid patents. But careful consideration should also be given to what evidence of good faith could be presented in those instances where a dispute over a third party's patent escalates to litigation. Recent developments in the law of willful infringement do not minimize the importance of an accused infringer's being able to come forward with such affirmative evidence.