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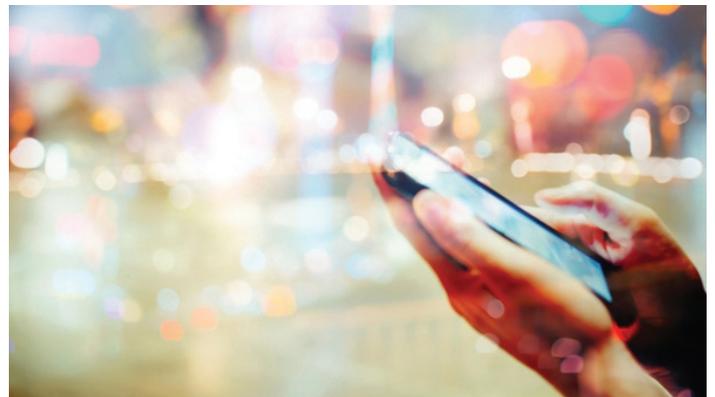
The fallout from Halo: Opinions of counsel and the evolving standard for willfulness

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ON JUNE 13, 2016, THE SUPREME COURT issued its decision in *Halo Electronics, Inc. v. Pulse Electronics, Inc.*, involving the circumstances in which a court may award enhanced damages for patent infringement under 35 U.S.C. § 284.

In *Halo*, the Court rejected several of the Federal Circuit's holdings in *In re Seagate Technology, LLC*, a 2007 decision that established a two-pronged test for an award of enhanced damages. In particular, the Supreme Court abrogated *Seagate's* threshold requirement that an infringer's conduct must be "objectively reckless" to qualify for an enhanced damages award.

After *Halo*, a court may consider only the defendant's subjective intent in determining whether a defendant's infringement was "egregious." In light of this change, companies may perceive a need to adjust their practices in conducting patent-related diligence, including by obtaining and using written opinions of counsel.



But in examining *Halo's* impact, it is important to understand what the Supreme Court held — and what it did not.

While the Court acknowledged that district courts have considerable discretion in awarding enhanced damages, it reaffirmed that patent damages may be increased only "as a 'punitive' and vindictive' sanction for egregious

infringement behavior” (i.e., willfulness). The Court’s principal objection to the two-pronged *Seagate* test was that the first prong required the presence of objective recklessness in every case.

Under *Seagate*, even a malicious, bad-faith infringer, whose attorneys developed reasonable non-infringement or invalidity defenses at trial, would be spared the potential for enhanced damages — even if the infringer did not rely on those defenses in its decisions to make or sell products. The Supreme Court held that this requirement was “unduly rigid” and “impermissibly encumber[ed] the statutory grant of discretion to district courts.”

Now, under *Halo*, an infringer’s subjective willfulness alone, without regard to the objective merit of its defenses in litigation, may warrant enhanced damages, thus putting the willfulness issue before a jury in many more cases. And, the infringer’s mental state is to be assessed “at the time of the challenged conduct,” not at the time of trial.

Halo did not make opinions of counsel mandatory. 35 U.S.C. § 298, which was enacted in 2011, provides that the failure of an infringer to obtain the advice of counsel, or to present such advice to the court or jury, may not be used to prove that the accused infringer willfully infringed an asserted patent. As Justice Breyer wrote in a concurring opinion in *Halo*, procurement of an opinion of counsel can be expensive, and an appropriate non-attorney having experience in the relevant technology may be in a position to identify reasonable defenses without the assistance of counsel.

Halo also may have actually heightened the mental state required to establish willfulness. Where *Seagate* defined “willful” to include “reckless behavior,” *Halo* appears to hold that only “intentional or knowing” infringement can be “egregious” enough to warrant enhanced damages.

And Justice Breyer’s concurrence even suggests that an infringer who “knew about the patent *and nothing more*” does

not willfully infringe the patent; rather, knowledge that the accused product *actually* infringes appears to be required.

Companies deciding whether to obtain an opinion of counsel, in addition to accounting for the company’s budget, business objectives, and appetite for risk (or lack thereof), must also consider the new, post-*Halo* advantages and disadvantages of obtaining such opinions.

While an accused infringer’s litigation-driven defenses, even if reasonable, are now irrelevant to a determination of willfulness post-*Halo*, those same defenses, if included in a pre-suit opinion of counsel, may provide a defense to willful infringement. Companies that previously relied on the objective prong of *Seagate* may now be more inclined to obtain a pre-suit opinion and rely on it in defense to a charge of willfulness.

In some circumstances, a pre-suit opinion can be used to moderate other activities undertaken by the accused infringer that carry a high risk of infringement or the appearance of impropriety. For instance, in

Stryker Corp. v. Zimmer, Inc., the evidence showed that the defendant's design team was instructed to copy the plaintiff's products.

In this situation, one may be more likely to conclude that the behavior was "egregious," unless some countervailing evidence is presented that the company was not deliberately infringing — such as an opinion of counsel. Before *Halo*, such an opinion would not have been necessary, as prevailing on the first prong of *Seagate* based on reasonable litigation-based defenses would have mooted consideration of any illicit copying or similar conduct.

On the other hand, as it is a plaintiff's burden to prove willfulness (although that burden no longer needs to be met by "clear and convincing evidence"), accused infringers may choose to forego a pre-suit opinion, especially where there are no "red flag" activities (such as copying of competitors' products) that could

otherwise provide a basis to infer the required state of mind.

Also, reliance on an opinion will result in a waiver of the attorney-client privilege and at least some attorney work product regarding the same subject matter. If an opinion is obtained, it should be prepared by competent, outside counsel, other than trial counsel (to whom the waiver does not extend). Each opinion sought should be focused on a single defense if possible — e.g., either non-infringement or invalidity — to limit waiver to one defense while preserving protection for the other.

Finally, a company need not use an opinion of counsel that it has actually obtained. Many courts will permit a party to wait until later in a litigation to determine whether it will assert an advice-of-counsel defense and waive work product protections.

In sum, *Halo* represents a significant departure from the prior *Seagate* test in terms of

how willfulness determinations are made after the commencement of a lawsuit. But because there is no affirmative duty to obtain or present evidence on the advice of counsel, *Halo*'s effect on pre-suit opinions will likely be more muted, at least until lower courts more fully develop the new standard.

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