

The Halo Effect: More Jury Trials On Willfulness

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Patent holders have faced a number of new challenges to successfully enforce their patent rights over the last several years. The creation and implementation of the Patent Trial and Appeal Board and inter partes review process and the aggressive interpretation of Alice regarding § 101 are two primary examples. The U.S. Supreme Court's recent decision in Halo Electronics Inc. v. Pulse Electronics Inc., however, signifies one of the few changes that swing the pendulum in favor of patent holders. In Halo, the Supreme Court rejected the Federal Circuit's two-prong test for willful infringement as "unduly rigid," and instead opted for a standard based only on the "subjective willfulness of a patent infringer." District court judges have already recognized that Halo has lessened their role in willfulness determinations — whether on a motion for summary judgment or motion for judgment as a matter of law. This Halo effect, therefore, has increased the role juries play in the determination of willful infringement.



Patrick M. Arenz

Halo and the New Standard for Willful Infringement

In Halo, the Supreme Court clarified the proper standard for determining willful infringement.[1] Under the Federal Circuit's pre-Halo case law, as set forth in In re Seagate Technology LLC, a patent holder could only receive enhanced damages (based upon willful infringement) if it proved "by clear and convincing evidence that the infringer" acted with both "objective recklessness" and "subjective knowledge" of wrongdoing.[2] The Court in Halo expressly rejected this standard.[3] The holding in Halo has three fundamental parts: (1) renewed emphasis on an infringer's subjective, pre-litigation knowledge, (2) a lower burden of proof from clear-and-convincing evidence to a preponderance of evidence, and (3) increased deference through an abuse of discretion standard on appeal to district courts when they decide to enhance damages or not.[4] This article focuses on the first part of the holding in Halo and subsequent cases addressing the role of an infringer's subjective, prelitigation knowledge in litigation.



William E. Manske

The Halo decision removes the "inelastic constraints of the Seagate test," and specifically the threshold assessment of whether a defendant's actions were "objectively reasonable." [5] In its decision, the Supreme Court expressed concern that the Seagate test protected the worst infringers. Under Seagate "someone who plunders a patent — infringing it without any reason to suppose his conduct is arguably defensible — [could] nevertheless escape any comeuppance under § 284 solely on the strength of his attorney's ingenuity." [6] Under Halo, courts should no longer "look to facts that the defendant neither knew nor had reason to know at the time he acted." [7] Like the court's decision in deciding when to

award attorneys' fees in *Octane Fitness*,^[8] the Halo opinion reflects the court's directive that enhanced damages should be determined based on "subjective willfulness ... without regard to whether [] infringement was objectively reckless."^[9] The issue of willful infringement, therefore, now turns on the "subjective willfulness of the patent infringer" in view of the particular circumstances of each case.^[10]

The Immediate Impact of Halo

The impact of Halo has been swift and strong for patent holders. Before Halo, summary judgment of no willful infringement was often predictable. District courts regularly decided the objective prong as a matter of law.^[11] And alleged infringers won summary judgment of no willful infringement over 40 percent of the time under the Seagate standard.^[12] As a practical matter, proving the objective prong of the Seagate test grew more difficult over time because patent holders were forced to show that the infringer lacked a "reasonable defense," including those that were developed after litigation started.^[13] But the Supreme Court in Halo expressly removed the objective prong from the willfulness inquiry. Indeed, the Federal Circuit's first post-Halo decision confirms that post-litigation defenses play no role in the new, post-Halo willfulness inquiry: "Proof of an objectively reasonable litigation-inspired defense to infringement is no longer a defense to willful infringement."^[14] The Halo decision, therefore, should dramatically disrupt the number of summary judgment findings of no willful infringement.

The Eastern District of Texas decision in *Transdata Inc. v. Denton Municipal Electric* is most telling on this point.^[15] *Transdata* was a multidistrict litigation venued in the Western District of Oklahoma for pretrial purposes. Before the case was transferred back to the Eastern District of Texas for trial, the MDL court granted summary judgment of no willful infringement under the Seagate standard because the patent holder could not prove the objective prong.^[16] Shortly before trial, and after Halo was decided, the Eastern District of Texas reversed this order, finding that "the pre-trial record reveal[ed] factual disputes such that the question of subjective willfulness must be decided by the jury."^[17] In fact, as of the date of this article, there has not been a single district court decision granting summary judgment of no willful infringement since Halo.

District courts applying Halo have emphasized that the issue of willful infringement falls within the province of the jury. Since the Halo decision, five district courts have recognized the need for the jury to decide willfulness.^[18] Two of these decisions are particularly instructive. In *Presidio v. American Technical Ceramics*, the jury found willful infringement under the pre-Halo, subjective prong of the Seagate analysis. On post-trial motions, the district court confirmed that the issue of willful infringement is one of fact for the jury and rejected the infringer's argument that willfulness should not be decided by the jury.^[19] The Western District of North Carolina reached the same conclusion in *Sociedad Espanola v. Blue Ridge X-Ray Co.* There, the district court explained that willfulness post-Halo is "solely a factual issue," and that the jury's verdict "standing alone is sufficient to support a finding willfulness."^[20] In its only post-Halo decision to date, *WBIP LLC v. Kohler Co.*, the Federal Circuit agreed with this view, explaining that "the factual components of the willfulness question should be resolved by the jury."^[21]

The Federal Circuit's decision in *WBIP v. Kohler* also sets a low bar to establish and prove willfulness in front of the jury. In *WBIP v. Kohler*, the Federal Circuit reviewed the jury's finding of willfulness. After the court's per se rejection of the infringer's arguments on post-litigation defenses, the court affirmed the jury's willfulness finding based only on the infringer's knowledge of the asserted patent. The court explained, for instance, "that there was substantial evidence for the jury's finding that Kohler had knowledge of the patents in suit at the time of infringement."^[22] On this basis alone, the Federal Circuit affirmed the jury's finding of willful infringement.^[23]

Conclusion

The Halo decision has already made a significant impact on willful infringement claims. The initial impact has been a dramatic decline in summary judgment orders of no willful infringement. As a result, patent holders can expect to have the issue of willfulness decided by a jury. So, while some recent developments have made patents more difficult to enforce, the Supreme Court's Halo decision has established that willfulness is a sharpened arrow in the patent owners' quiver.

—By Patrick M. Arenz and William E. Manske, Robins Kaplan LLP

Patrick Arenz is a principal and William Manske is an associate in Robins Kaplan's Minneapolis office.

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[1] Halo Electronics, Inc. v. Pulse Electronics, Inc., -- U.S. ----, 2016 U.S. LEXIS 3776 (June 13, 2016).

[2] In re Seagate Technology, LLC, 497 F.3d 1360, 1371 (Fed. Cir. 2007).

[3] Halo, 2016 U.S. LEXIS 3776, at *15-19.

[4] See id. at *15-21.

[5] Id. at *19.

[6] Id. at *17.

[7] Id. at *18.

[8] See Octane Fitness, LLC v. ICON Health & Fitness, Inc., 134 S. Ct. 1749, 1756 (2014) (rejecting the Federal Circuit's "unduly rigid" two-part test for awarding attorney's fees under 35 U.S.C. § 285).

[9] Halo, 2016 U.S. LEXIS 3776, at *16.

[10] Id. at *16-17.

[11] Bard Peripheral Vascular, Inc. v. W.L. Gore & Assocs., Inc., 682 F.3d 1003 (Fed. Cir. 2012) ("The court now holds that the threshold objective prong of the willfulness standard enunciated in Seagate is a question of law based on underlying mixed questions of law and fact and is subject to de novo review.").

[12] See, e.g., Docket Navigator Analytics, Docket Navigator, motion success rates (motion for summary judgment – no willful infringement) (October 1, 2007 – June 1, 2016); see also Seaman, Christopher B., Willful Patent Infringement and Enhanced Damages After In re Seagate: An Empirical Study, 97 Iowa L. Rev. 417, 420 (2012) (noting increase in summary judgment of no willful infringement post-Seagate).

[13] See, e.g., Spine Sols. Inc. v. Medtronic Sofamor Danek USA, Inc., 620 F.3d 1305, 1319 (Fed. Cir. 2010).

[14] WBIP, LLC v. Kohler Co., No. 2015-1038, 2016 U.S. App. LEXIS 13136, at *48 (Fed. Cir. July 19, 2016). District courts have reached the same conclusion. See, e.g., Presidio Components Inc. v. Am. Tech. Ceramics Corp., No. 14-cv-02061, 2016 U.S. Dist. LEXIS 82532, at *45 (S.D. Cal. June 17, 2016) (rejecting arguments about objective prong “because, after Halo, a finding as to objective recklessness is no longer necessary to support an award of enhanced damages”); Sociedad Espanola v. Blue Ridge X-Ray Co., No. 1:10-cv-00159, 2016 U.S. Dist. LEXIS 88739 (W.D.N.C. July 8, 2016) (“Thus, in Halo, the Supreme Court has overruled the objective prong of Seagate, leaving the issue of willfulness as solely a factual issue which can readily be addressed by a jury.”).

[15] Transdata Inc. v. Denton Municipal Electric, No. 6:10-cv-00557, Dkt No. 259 (E.D. Tex. June 29, 2016).

[16] *Id.* at 3.

[17] *Id.* at 3-4.

[18] Presidio Components Inc. v. Am. Tech. Ceramics Corp., No. 14-cv-02061, 2016 U.S. Dist. LEXIS 82532 (S.D. Cal. June 17, 2016); Sociedad Espanola v. Blue Ridge X-Ray Co., No. 1:10-cv-00159, 2016 U.S. Dist. LEXIS 88739 (W.D.N.C. July 8, 2016) (“Thus, in Halo, the Supreme Court has overruled the objective prong of Seagate, leaving the issue of willfulness as solely a factual issue which can readily be addressed by a jury.”); Viva Healthcare Packaging USA Inc. v. CTL Packaging USA Inc., No. 3:13-cv-00569, 2016 U.S. Dist. LEXIS 90130 (W.D.N.C. July 11, 2016); PPC Broadband Inc. v. Corning Optical Comms., 5:11-cv-761, 2016 U.S. Dist. LEXIS 78408 (N.D.N.Y. June 16, 2016) (affirming finding of willful infringement based on jury verdict alone); Transdata, No. 6:10-cv-00557 at 3-4.

[19] See Presidio, 2016 U.S. Dist. LEXIS 82532, at * 44-45 (concluding that “the Court properly permitted the jury to issue a finding as to whether ATC’s infringement was willful”).

[20] See Sociedad Espanola, 2016 U.S. Dist. LEXIS 88739, at *6-7.

[21] WBIP, 2016 U.S. App. LEXIS 13136 at *49-50.

[22] *Id.* at 51-52.

[23] See *id.* (“[T]he jury had record evidence upon which it could have inferred that Kohler had knowledge of the patents at issue, and thus its finding is supported by substantial evidence.”).