

## 4 Factors Influencing Enhanced Damages After Halo

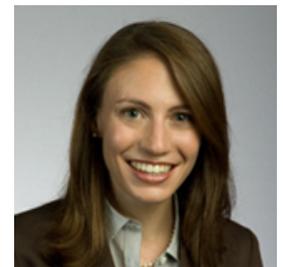
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This article considers district court decisions on enhanced damages issued within the first six months after Halo, particularly focusing on the factors that influence whether enhanced damages are ultimately awarded. Our article tomorrow will analyze how district courts have addressed the sufficiency of pleading enhanced damages after Halo at the motion-to-dismiss stage.



*Donald R. Steinberg*

The U.S. Supreme Court in Halo[1] rejected Seagate’s requirement for “objective recklessness” as a prerequisite for willful infringement and enhanced damages under § 284,[2] explaining that this requirement allowed the most culpable offenders to avoid punishment.[3] Rather, the court focused on the subjective knowledge of the infringer at the time of the alleged misconduct.[4] The court specifically rejected the practice of avoiding enhanced damages by presenting reasonable post-litigation defenses, regardless of the culpability at the time of the infringement.[5]



*Heather M. Petruzzi*

Although Halo lowered the bar for proving willfulness, enhanced damages do not automatically follow a willfulness determination. Indeed, the court cautioned that enhancement should be limited to particularly egregious cases, not the “garden-variety” infringement case.[6] Nor is willfulness required to award enhanced damages, and post-Halo opinions have considered enhancement even in the absence of willfulness.[7] This marks a shift in the enhanced damages analysis from willful conduct to egregious behavior more generally.



*Margareta K. Sorenson*

Halo emphasized that “courts should continue to take into account the particular circumstances of each case,”[8] and while some district courts continue to emphasize the same factors,[9] others state that the “touchstone for awarding enhanced damages after Halo is egregiousness.”[10] This article examines what factors most strongly influence enhancement of damages post-Halo.[11] In decisions rendered in the first six months after Halo, the most salient factors supporting enhancement were copying, failure to investigate the scope of the patent, and concealment. Reasonable defenses, by contrast, weighed in favor of no enhancement.

### **Copying**

Copying correlated strongly with enhancement.[12] In *Imperium IP*, the defendant, then a customer, received detailed information about the patented cameras before designing a very similar device.[13] The defendant also failed to produce any evidence that it independently developed the patented technology.[14] Considering these and other factors, the court concluded: “In view of evidence of Defendants’ conduct at the time of accused infringement and after reviewing the Read factors, the Court finds that enhancement is warranted.”[15] In another case, evidence that the infringer observed patented

features at a trade show before adding these to its own products supported copying.[16] In one case, simply adding a feature known to be infringing was sufficient to support copying, although other egregious behavior, such as concealment and litigation misconduct also contributed to enhancement.[17]

By contrast, copying was not present in any of the decisions that declined to award enhanced damages. In *Finjan*, for example, evidence that Blue Coat's employees discussed *Finjan*'s products was not sufficient to show copying but "simply evidence of normal business competition." [18] While there appears to be a fine distinction between copying and business competition, most defendants found to have deliberately copied the technology received information directly from the patent holder,[19] rather than simply monitoring from a distance, as in *Finjan*. Thus, evidence of copying as opposed to normal business competition weighs strongly in favor of enhancement.

### **Investigated Scope and Formed Good-Faith Belief of Invalidity or Noninfringement**

Courts were more likely to enhance damages when the infringer knew of the patents but failed to adequately investigate them. In *Dominion*, the defendant concluded that it did not infringe because its product included additional elements, without consulting anyone with expertise in reading patent claims.[20] In *PPC*, the defendant received legal advice regarding the scope of the patents, but only with regard to an earlier, noninfringing version of the product.[21] Attempting to purchase the patents but then not thoroughly investigating them supported enhancement.[22] In all of these cases, the court ultimately enhanced damages.

By contrast, courts denied enhancement when the infringer did not have sufficient information to conclude that it may be liable. In *Finjan*, the defendant knew generally of the patents, but not the specific patents-in-suit.[23] In *Presidio*, the defendant knew of the patents, but filed a re-examination request that ultimately caused the plaintiff to narrow the claims.[24] In another case, where the infringer filed for declaratory judgment of invalidity and noninfringement, the court declined to enhance damages despite finding that the infringer failed to investigate the scope of the patents, holding that in light of the particular circumstances, the case was close and the egregiousness was somewhere between the parties' views of the facts.[25] Finally, the court did not enhance damages when the defendant developed a noninfringement theory based on opinions from two different law firms and third-party testing.[26]

This early analysis indicates that adequately investigating scope and developing reasonable defenses at the time of suspected infringement is prudent to avoid enhanced damages.

### **Closeness of the Case**

The fifth Read factor, "closeness of the case," overlaps with the second Read factor — courts that found that defenses were reasonable typically also found that the case was close, even though the defendant ultimately did not prevail. Thus, even after *Halo*, objectively reasonable defenses remain important,[27] although not dispositive. In *Radware*, the court found that a good faith belief that the patents were invalid did not favor enhancement when that opinion was supported by expert testimony and the references were antedated and were not shown to have deficient disclosure.[28] By contrast, the

court in *Enplas* adopted the jury's willfulness determination and found no evidence of good faith prior to the litigation.[29] Nevertheless, the court declined to enhance damages, finding the case to be "hard fought and a close call," and noting that the defenses that survived summary judgment were reasonable and that the patent holder dropped a number of claims and products over the course of litigation.[30]

In *Dominion*, the court enhanced damages despite finding that the case was close. Thus, although reasonable defenses were presented at trial, these did not avoid enhancement in light of the particular circumstances, including the defendant's failure to investigate the scope of the patent at the time of infringement, concealing and copying.

### **Concealment**

Every court that found concealment also enhanced damages. In *PPC*, the defendant added an "invisible" infringing feature, while keeping "the same series and model number, same outward appearance, and same catalogue and marketing materials" as its previous, noninfringing product[31] In *Dominion*, the defendant refused to provide information relevant to infringement and only third-party discovery revealed the full extent of the infringement.[32] Concealed infringement was not found in any of the cases denying enhanced damages, and providing samples to the patent holder weighed against concealment in one case.[33]

### **Conclusion**

Although the post-*Halo* cases are few and fact-specific, they provide some insight for when courts will enhance damages under the new law. Enhancement is more likely when egregious misconduct, such as copying and concealment is present. Failure to investigate scope also weighs in favor of enhancement. By contrast, obtaining a legal opinion and reasonable post-litigation defenses help prevent enhanced damages. The court in *Halo* noted that failure to obtain an opinion of counsel cannot be used to prove willful infringement, and Justice Stephen Breyer's concurrence elaborated that the high cost of legal opinions "can prevent an innovator from getting a small business up and running." [34] Nonetheless, legal opinions and reasonable post-litigation defenses may help prevent enhanced damages in situations where the accused infringer knew of the patents at the time of the alleged infringement.

*Donald R. Steinberg* is a partner in the Boston office of WilmerHale and chairman of the firm's intellectual property department. *Heather M. Petruzzi* is a counsel in the firm's Washington, D.C., office. *Margareta K. Sorenson, Ph.D.*, is a senior associate in the firm's Washington, D.C. office.

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[1] Halo Elecs., Inc. v. Pulse Elecs., Inc., 136 S. Ct. 1923, 1932 (2016) (overruling *In re Seagate Technology, LLC*, 497 F.3d 1360 (Fed. Cir. 2007)).

[2] To show willfulness under *Seagate*, a Patent Owner had to show by clear and convincing evidence that (1) the infringer “acted despite an objectively high likelihood that its actions constituted infringement of a valid patent” and (2) “the risk of infringement ‘was either known or so obvious that it should have been known.’” *Id.* at 1930, citing *Seagate* at 1371.

[3] *Id.* at 1932.

[4] *Id.* at 1933.

[5] *Id.* at 1926.

[6] *Id.* at 1935.

[7] *Finjan, Inc. v. Blue Coat Sys.*, 2016 U.S. Dist. LEXIS 93267, \*47 (N.D. Cal. July 18, 2016); *Radware v. F5 Networks, Inc.*, 2016 U.S. Dist. LEXIS 112504, \*9-28 (considering enhanced damages despite granting JMOL of no willfulness) (N.D. Cal. Aug. 22, 2016).

[8] *Halo*, 136 S. Ct. at 1933.

[9] *Read Corp. v. Portec, Inc.*, 970 F.2d 816, 827 (Fed. Cir. 1992) provides nine factors for enhancement analysis: (1) whether the infringer deliberately copied the ideas of another; (2) whether the infringer 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) the defendant's size and financial condition; (5) the closeness of the case; (6) the duration of the defendant's misconduct; (7) remedial action by the defendant; (8) the defendant's motivation for harm; and (9) whether the defendant attempted to conceal its misconduct.

[10] *Trs. of Boston Univ. v. Everlight Elecs. Co., Ltd.*, 2016 U.S. Dist. LEXIS 96045, \*7-8 (D. Mass. July 22, 2016).

[11] *PPC Broadband, Inc. v. Corning Optical Commc'ns. RF, LLC*, No. 5:11-cv-761, Mem. Dec. & Order, Dkt. 526 (N.D.N.Y. Nov. 3, 2016); *Dominion Res. Inc. v. Alstom Grid, Inc.*, 2016 U.S. Dist. LEXIS 136728 (E.D. Pa. Oct. 3, 2016); *Imperium IP Holdings (Cayman), Ltd. v. Samsung Elecs. Co.*, 2016 U.S. Dist. LEXIS 113307 (E.D. Tex. Aug. 24, 2016); *Radware v. F5 Networks, Inc.*, 2016 U.S. Dist. LEXIS 112504 (N.D. Cal. Aug. 22, 2016); *Presidio Components, Inc. v. Am. Tech. Ceramics Corp.*, 2016 U.S. Dist. LEXIS 110212 (S.D. Cal. Aug. 17, 2016); *Enplas. Display Device Corp. v. Seoul Semiconductor Co.*, 2016 U.S. Dist. LEXIS 105762, (N.D. Cal. Aug. 10, 2016); *Arctic Cat Inc v. Bombardier Rec. Prods.*, 2016 U.S. Dist. LEXIS 107724 (S.D. Fla. July 27, 2016); *Trs. of Boston Univ. v. Everlight Elecs. Co., Ltd.*, 2016 U.S. Dist. LEXIS 96045 (D. Mass. July 22, 2016); *Finjan, Inc. v. Blue Coat Sys.*, 2016 U.S. Dist. LEXIS 93267, \*47

(N.D. Cal. July 18, 2016); *Loops LLC v. Phoenix Trading, Inc.*, 2016 U.S. Dist. LEXIS 155694, \*14-15 (W.D. Wash. Nov. 9, 2016). Research includes cases through December 9, 2016.

[12] *PPC Broadband, Inc. v. Corning Optical Commc'ns. RF, LLC*, No. 5:11-cv-761, Mem. Dec. & Order, Dkt. 526, 18-19 (N.D.N.Y. Nov. 3, 2016); *Dominion Res. Inc. v. Alstom Grid, Inc.*, 2016 U.S. Dist. LEXIS 136728 (E.D. Pa. Oct. 3, 2016); *Imperium IP Holdings (Cayman), Ltd. v. Samsung Elecs. Co.*, 2016 U.S. Dist. LEXIS 113307 (E.D. Tex. Aug. 24, 2016);

[13] *Imperium IP*, 2016 U.S. Dist. LEXIS 113307, at \*19-20.

[14] *Id.*

[15] *Id.* at \*22.

[16] *Dominion Res. Inc. v. Alstom Grid, Inc.*, 2016 U.S. Dist. LEXIS 136728, at \*61-62 (Alstom presented its infringing functionality 9 months after viewing Dominion's product at a trade show);

[17] *PPC Broadband, Inc. v. Corning Optical Commc'ns. RF, LLC*, No. 5:11-cv-761, Mem. Dec. & Order, Dkt. 526, at 18-19. (Here the court upheld the jury's finding of willful infringement for several additional reasons, including continuing to use features that were found to infringe in a prior proceeding, concealment, and infringement after the present case.) See *id.* at \*18-28; see also *PPC Broadband, Inc. v. Corning Optical Commc'ns RF, LLC*, 2016 U.S. Dist. LEXIS 788408, \*22 (N.D.N.Y. June 16, 2016).

[18] *Finjan, Inc. v. Blue Coat Sys.*, 2016 U.S. Dist. LEXIS 93267, \*49 (N.D. Cal. July 18, 2016).

[19] *Imperium IP Holdings (Cayman), Ltd. v. Samsung Elecs. Co.*, 2016 U.S. Dist. LEXIS 113307, at \*19-20; *Dominion, Res. Inc. v. Alstom Grid, Inc.*, 2016 U.S. Dist. LEXIS 136728, at \*61-62.

[20] *Dominion Res. Inc. v. Alstom Grid, Inc.*, 2016 U.S. Dist. LEXIS 136728, at \*63.

[21] *PPC Broadband, Inc. v. Corning Optical Commc'ns. RF, LLC*, No. 5:11-cv-761, Mem. Dec. & Order, Dkt. 526, at 21.

[22] *Imperium IP*, 2016 U.S. Dist. LEXIS 113307, at \*20-21 (enhancement favored when the defendant knew of the patents and litigation related to the patents, but failed to analyze them, instead attempting to buy them through a broker).

[23] *Finjan Inc. v. Blue Coat Sys.*, 2016 U.S. Dist. LEXIS 93267, at \*50.

[24] *Presidio Components, Inc. v. Am. Tech. Ceramics Corp.*, 2016 U.S. Dist. LEXIS 110212, \*72 (S.D. Cal. Aug. 17, 2016).

[25] Enplas Display Device Corp. v. Seoul Semiconductor Co., 2016 U.S. Dist. LEXIS 105762, \*22-24 (N.D. Cal. Aug. 10, 2016).

[26] Trs. of Boston Univ. v. Everlight Elecs. Co., Ltd., 2016 U.S. Dist. LEXIS 96045, \*8, 11 (D. Mass. July 22, 2016).

[27] See also WesternGeco L.L.C. v. ION Geophysical Corp., 2016 U.S. App. LEXIS 17215, \*9-10 (Fed. Cir. Sept. 21, 2016) (clarifying that “objective reasonableness of the accused infringer’s positions can still be relevant for the district court to consider when exercising its discretion.”).

[28] Radware v. F5 Networks, Inc., 2016 U.S. Dist. LEXIS 112504, \*23-25 (N.D. Cal. Aug. 22, 2016).

[29] Enplas Display Device Corp. v. Seoul Semiconductor Co., 2016 U.S. Dist. LEXIS 105762, \*24-25 (N.D. Cal. Aug. 10, 2016).

[30] Enplas Display Device Corp. v. Seoul Semiconductor Co., 2016 U.S. Dist. LEXIS 105762, \*24-25 (N.D. Cal. Aug. 10, 2016).

[31] PPC Broadband, Inc. v. Corning Optical Commc’ns. RF, LLC., No. 5:11-cv-761, Mem. Dec. & Order, Dkt. 526, at 5.

[32] Dominion, 2016 U.S. Dist. LEXIS 136728, at \*69-70.

[33] Trs. of Boston Univ., 2016 U.S. Dist. LEXIS 96045, at \*2.

[34] Halo Elecs., Inc. v. Pulse Elecs., Inc., 136 S. Ct. at 1936.