

The Renewed Importance of Opinions of Counsel in Patent Infringement Actions

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Several recent court decisions in patent infringement actions reflect the significant impact of the Supreme Court's ruling in *Halo Electronics, Inc. v. Pulse Electronics, Inc.*^[1], which dramatically altered the landscape for proving and obtaining enhanced damages in patent infringement cases. Many courts have exercised the discretion afforded by *Halo* to place the issue of whether an accused infringer's conduct was willful—thus giving rise to enhanced damages—firmly in the hands of the jury to decide.^[2]

This alert describes in detail how the *Halo* decision has changed the standard for enhanced damages awards, the underlying rationale behind the change in law, and how in-house lawyers and executives should adjust their opinion practices to mitigate the increased threat of enhanced damages. At a minimum, companies should seek to obtain an opinion of counsel as soon as the threat of an infringement lawsuit emerges (and in any event, prior to actual litigation) that evinces an accused infringer's good faith belief that it does not infringe or that the asserted patent is invalid.

Background

Section 284 of the Patent Act states that, where infringement occurs, courts "may increase the damages up to three times the amount found or assessed." Such treble damages have generally been reserved for cases of "willful or bad-faith infringement"^[3].

Over the past decade, courts have used a two-part test for willful infringement fashioned by the Federal Circuit in the *Seagate*^[4] case. There, the Court held a finding of willful infringement requires that the patentee prove by clear and convincing evidence that:

- (1) the defendant acted despite "an objectively high likelihood that its actions constituted infringement of a valid patent" (also called the "objective recklessness" prong) and
- (2) the objectively high likelihood was "either known or so obvious that it should have been known" to the defendant (also called the "subjective recklessness" prong).

The *Seagate* decision also expressly discarded any affirmative obligation on the part of defendants to obtain an opinion of counsel. Finally, *Seagate* resulted in a trifurcated standard for reviewing willfulness findings on appeal: (1) the objective recklessness prong was reviewed *de novo*; (2) the subjective recklessness prong was reviewed for substantial evidence; and (3) the ultimate decision whether to enhance damages was reviewed for whether the district court abused its discretion^[5].

Post-*Seagate*, willful infringement became extremely hard to prove, leading to a decrease in enhanced damages awards and thereby reducing the need for potential infringers to obtain formal opinions of counsel.

The Supreme Court Relaxes the Willful Infringement Standard

Now with *Halo*, the Supreme Court has eliminated the rigid *Seagate* test for determining whether a district court



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may increase damages for patent infringement in favor of a more deferential standard. In discarding *Seagate* as being inconsistent with §284, the Court confirmed that "[t]he subjective recklessness of a patent infringer, intentional or knowing, may warrant enhanced damages, without regard to whether his infringement was objectively reckless."

The Court's opinion focused on allowing district courts to use their discretion to consider the application of enhanced damages more freely, especially in cases of a "'wanton and malicious pirate' who intentionally infringes 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." In addition, the Court emphasized that a defendant's ability to raise reasonable defenses at trial should no longer preempt a finding of willful infringement because willfulness is measured against the defendant's knowledge and intent at the time of its alleged willful conduct, not at the time of trial.

The Court was careful to explain, however, that a district court's discretion has limits, and emphasized that the award of enhanced damages should be "generally reserved for egregious cases of culpable behavior." As such, the Court noted that the imposition of enhanced damages is not appropriate in the typical infringement case.

The Court also clarified two other issues in its opinion. First, willful infringement no longer must be proven by clear and convincing evidence but rather by a preponderance of the evidence. The Court found that Section 284 does not impose any specific evidentiary burden, and the preponderance standard governs most other aspects of patent infringement litigation. Second, on appeal, willful infringement findings should be reviewed only for abuse of discretion—instead of the tripartite standard set forth in *Seagate*.

The holding and analysis set forth in *Halo* is not surprising, given the groundwork laid by the Supreme Court a couple of years ago in two cases evaluating a closely-related area of patent law^[6]. The Court rejected a similarly rigid Federal Circuit test for the award of attorney's fees in exceptional cases under 35 U.S.C. §285, and returned such considerations to the discretion of the district courts. The Court also lowered the standard of proof under Section 285 from clear and convincing to a preponderance of the evidence. And, the Court confirmed that appeals of attorney's fees awards under §285 should be reviewed for abuse of discretion.

Post-*Halo*, Opinions of Counsel Take On Increased Importance

In view of *Halo*, the threat of enhanced damages is a real concern once again for any entity whose activities could give rise to claims of patent infringement. Because an infringer's subjective belief is a factual issue, it appears that juries will play a larger role in determining whether willful infringement exists. Therefore, obtaining a well-reasoned opinion of counsel for instances of possible infringement is crucial to reduce the risk of enhanced damages being imposed at trial.

Ideally, opinion counsel should be engaged as soon as a threat of infringement emerges—whether via receipt of a complaint, demand letter or other communication from a patentee, or even if internal concerns exist regarding a patent's applicability to your activities or products. Under *Halo*, opinions that are obtained after the commencement of litigation are afforded less weight.

Opinions may take a variety of forms that are typically commensurate with the threat posed by the asserted patent. In cases where a high-level read of the patent suggests minimal risk of infringement, a simple claim chart opinion may be appropriate. In cases where circumstances require a deeper dive into the patent and the accused activity to ascertain a viable non-infringement position, a formal opinion letter may make sense.

However, while an opinion of counsel is useful to mitigate a finding of willfulness, reliance on the opinion during litigation invokes a waiver of attorney-client privilege with respect to the subject matter of the opinion. This waiver implicates communications with outside counsel as well as in-house counsel and executives involved in developing and reviewing the opinion.

Care should also be taken when selecting opinion counsel if you are already involved in litigation, as some cases suggest the waiver of attorney-client privilege could extend to trial counsel if they are also involved in the opinion work. If feasible, your opinion counsel should be at a different firm than your trial counsel. At the very least, opinion counsel should comprise different lawyers than your trial team. The same principle applies to in-house counsel: clients should monitor the role of inside lawyers overseeing the opinion to ensure that they are not too closely involved in the litigation.

Conclusion

The more-relaxed standard set forth in the *Halo* decision will have a significant impact on the evaluation of willful infringement claims at both the district court and appeals court levels—providing greater opportunity for lower courts to impose enhanced damages on accused infringers and for the Federal Circuit to uphold such damages awards. As a result, an uptick in opinion activity is expected on the part of potential infringers to safeguard

against possible charges of willfulness during litigation.

[1] *Halo Electronics, Inc. v. Pulse Electronics, Inc., et al.*, 579 U.S. ___, No. 14-1513, and *Stryker Corp et al. v. Zimmer, Inc., et al.*, No. 14-1520.

[2] See, e.g., *WBIP, LLC v. Kohler Co.*, Case Nos. 2015-1038, -1044, 2016 U.S. App. LEXIS 13136 at *49-50 (Fed. Cir. 2016); *Transdata Inc. v. Denton Municipal Electric*, No. 6:10-cv-00557, Dkt No. 259 (E.D. Tex. June 29, 2016); *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); *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).

[3] *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 505, n. 20 (1964).

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

[5] See *Bard Peripheral Vascular, Inc. v. W. L. Gore & Assoc., Inc.*, 682 F. 3d 1003, 1005, 1008 (Fed. Cir. 2012); *Spectralytics, Inc. v. Cordis Corp.*, 649 F. 3d 1336, 1347 (Fed. Cir. 2011).

[6] See *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 572 U.S. __ (2014) and *Highmark Inc. v. Allcare Health Management System, Inc.*, 572 U.S. __ (2014).

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