

## 2 Ways Courts Approach Willful Infringement After Halo

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In *Halo Elecs., Inc. v. Pulse Elecs., Inc.*, the Supreme Court rejected the “unduly rigid” framework first articulated in *Seagate* nearly a decade ago for awarding enhanced damages under 35 U.S.C. § 284 in the case of willful patent infringement.<sup>1</sup> In doing so, the Court noted that awards of enhanced damages were left to the discretion of the district court but have typically been reserved for “egregious” infringement behavior. In the wake of the new approach to willfulness and enhanced damages enunciated in *Halo* and the elimination of Form 18 in the Federal Rules of Civil Procedure,<sup>2</sup> several district courts have addressed whether patentees sufficiently plead willful infringement at the motion to dismiss stage. We discuss here some of the divergent approaches district courts have taken with respect to this issue.

As an initial matter, courts agree that a plaintiff must allege knowledge of the asserted patent as a prerequisite to alleging willful infringement. Once plaintiffs clear this hurdle, however, courts have generally taken two different approaches to the requirements for pleading willfulness. One approach sets a relatively low bar, requiring only that a patentee plead that the accused infringer had knowledge of the asserted patents that could potentially support a finding of egregiousness. And in these cases, some courts have taken a broad view of what constitutes “knowledge” of the patents. The other approach sets a relatively high bar, requiring that the complaint contain allegations of egregious conduct. District courts taking the second approach typically cite to Justice Breyer’s concurring opinion in *Halo* stressing that enhanced damages be reserved for “cases of egregious misconduct.”<sup>3</sup> Litigants should be aware of these different approaches when they plead and respond to claims for willful infringement and enhanced damages.

### *Group 1: Knowledge of the patent is sufficient to plead enhanced damages*

Some judges in the Eastern District of Texas, District of Delaware, Eastern District of Virginia, and the Eastern District of Tennessee have ruled that pleading pre-suit knowledge of the asserted patent is sufficient to allege willful infringement.<sup>4</sup> “Knowledge” of the asserted patent can be a more complicated issue than it may initially seem, and some courts have imputed knowledge, at least at the motion to dismiss stage, when the details surrounding the alleged “knowledge” make it plausible that the defendant was aware of the patent.

In the Eastern District of Texas case of *Blitzsafe Texas, LLC v. Volkswagen*, the defendants argued that knowledge of a patent application—not the patent—was insufficient to allege pre-suit willfulness. The defendants further argued that the plaintiff had not alleged post-suit

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<sup>1</sup> *Halo Elecs., Inc. v. Pulse Elecs., Inc.*, 136 S. Ct. 1923, 1932 (2016).

<sup>2</sup> Supreme Court of the United States, Amendments to the Federal Rules of Civil Procedure, available at [http://www.supremecourt.gov/orders/courtorders/frcv15\(update\)\\_1823.pdf](http://www.supremecourt.gov/orders/courtorders/frcv15(update)_1823.pdf).

<sup>3</sup> *Halo Elecs., Inc. v. Pulse Elecs., Inc.*, 136 S. Ct. 1923, 1938 (2016) (Breyer concurring).

<sup>4</sup> *Blitzsafe Texas, LLC v. Volkswagen Group of America, Inc.*, 2016 WL 4778699 (Aug. 19, 2016 E.D. Tex.); *DermaFocus LLC v. Ulthera, Inc.*, No. 15-654-SLR, 2016 WL 4263122 (D. Del. Aug. 11, 2016); *Audio MPEG, Inc. v. HP Inc.*, No. 2:15-cv-00073-HCM-RJK, 2016 WL 7010947 (E.D. Va. July 1, 2016); *Malibu Boats, LLC v. Mastercraft Boat Company, LLC*, 3:16-cv-82-TAV-HBG (Oct. 28, 2016 E.D. Tenn.).

willfulness because plaintiff did not seek an injunction.<sup>5</sup> The court denied the defendant’s motion to dismiss on both counts. For pre-suit willful infringement, the court reasoned that the defendant could have learned of the patent when the defendant cited the patent application in an *inter partes* reexamination proceeding, which occurred after the patent had issued.<sup>6</sup> As for post-suit willfulness, the court denied the motion to dismiss because the complaint notified the defendant of the issued patent and it recited facts that stated a plausible claim of direct and indirect infringement. The court observed that the defendants had not ceased the allegedly infringing activities, which the amended complaint implied was characteristic of willful infringement. The court therefore found it plausible that the defendants could be “deliberately continuing to infringe despite notice they are infringing the asserted patents.”<sup>7</sup>

In the Eastern District of Tennessee case of *Malibu Boats, LLC v. Mastercraft Boat Company, LLC*, the plaintiff filed its complaint for patent infringement on the same day the asserted patent was issued and alleged enhanced damages based, in part, on the defendant’s knowledge of the Notice of Allowance and Issue Notification for the asserted patent.<sup>8</sup> Citing Federal Circuit precedent, the court denied the defendant’s motion to dismiss noting that “pre-patent conduct may also be used to support a finding of willfulness.”<sup>9</sup>

Even in cases where motions to dismiss are granted, some courts suggest that the knowledge requirement may be met if there are sufficient factual allegations linking the defendant to the asserted patent. For example in *Scripps Research Inst. v. Illumina, Inc.*, the plaintiff alleged that the defendant was aware of the asserted patents because the defendant previously licensed other patents from one of the named inventors.<sup>10</sup> The court disagreed with the plaintiff that the defendant necessarily had knowledge of asserted patent because the inventor had over 80 patents and applications, and granted the motion to dismiss.<sup>11</sup> However, the court suggested that factual assertions showing relatedness between the licensed patents and the asserted patent could tilt the willfulness allegation from possible to plausible.<sup>12</sup>

Some courts also distinguish between knowledge for pre-suit and post-suit willfulness. As discussed above, the court in *Blitzsafe Texas LLC v. Volkswagen*, separately considered pre-suit and post-suit willfulness, but ultimately found a basis for each of them based on the allegations in the complaint. In other instances, courts may dismiss pre-suit willfulness, but allow post-suit willfulness to proceed. For example, in *DermaFocus LLC v. Ulthera, Inc.*, the plaintiff alleged pre-suit knowledge of the asserted patent based on a citation to the asserted patent in an Information Disclosure Statement filed by a founder of the defendant company. The court granted the defendant’s motion to dismiss pre-suit willfulness due to the plaintiff’s “implausible inferences related to pre-suit knowledge.”<sup>13</sup> However, noting the “less rigid standard announced

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<sup>5</sup> *Blitzsafe Texas, LLC v. Volkswagen Group of America, Inc.*, 2016 WL 4778699, at \*6 (Aug. 19, 2016 E.D. Tex.).

<sup>6</sup> *Id.*

<sup>7</sup> *Id.* at 7.

<sup>8</sup> *Malibu Boats, LLC v. Mastercraft Boat Company, LLC*, 3:16-cv-82-TAV-HBG, \*2-\*3 (Oct. 28, 2016 E.D. Tenn.).

<sup>9</sup> *Id.* at 6 (citing *Minn. Mining & Mfg. Co. v. Johnson Orthopedics, Inc.*, 976 F.2d 1559, 1581 (Fed. Cir. 1992)).

<sup>10</sup> *Scripps Research Inst. v. Illumina, Inc.*, No. 16-cv-661 JLS (BGS), 2016 WL 6834024, at \*7 (S.D. Cal. Nov. 21, 2016)

<sup>11</sup> *Id.*

<sup>12</sup> *Id.*

<sup>13</sup> *DermaFocus LLC v. Ulthera, Inc.*, No. 15-cv-654-SLR, 2016 WL 4263122, at \*6 (D. Del. Aug. 11, 2016).

in *Halo*”, the court denied the motion concerning the plaintiff’s “general allegations of willful infringement,” thus allowing post-suit willfulness to remain in the case.<sup>14</sup>

### *Group 2: Egregiousness is required to plead enhanced damages*

Other courts in the District of Delaware and District of Nevada have held that a higher bar exists to plead willfulness and have granted motions to dismiss where the plaintiff did not allege egregious conduct.<sup>15</sup> These cases typically cite Justice Breyer’s concurring opinion in *Halo* where he emphasized the majority’s own language that “enhanced damages are generally appropriate ... *only in egregious cases.*”<sup>16</sup>

For example, in *Varian Medical Systems, Inc. v. Elekta AB*, Judge Burke in the District of Delaware granted the defendant’s motion to dismiss where the plaintiff did little more than provide a formulaic recitation of the pre-*Halo* elements of willful infringement. The court stated that the complaint did not “sufficiently articulate how the [defendant’s conduct] actually amounted to an egregious case of infringement of the patent.”<sup>17</sup>

In *Princeton Digital Image Corp. v. Ubisoft Entm’t SA*, another case before Judge Burke, the plaintiff filed a third amended complaint wherein it alleged willful indirect infringement by the defendant. The court ultimately dismissed the claim because the plaintiff failed to allege indirect infringement in its original complaint and the defendant was not on notice of its own willful infringement.<sup>18</sup> However, the court noted that “even if one were to assume that the original Complaint did sufficiently put Ubisoft SA on notice of its indirect infringement, the TAC does not sufficiently articulate how Ubisoft SA’s actions during a short, three-month period of time amount to an ‘egregious’ case of infringement of the patent.”

The District of Nevada issued a similar ruling. In *CG Technology Development, LLC v. Big Fish Games, Inc.*, the court granted the defendant’s motion to dismiss because the plaintiff failed to allege any facts suggesting the defendant’s conduct was “egregious...beyond typical infringement.” According to this court, the plaintiff’s conclusory allegations of knowledge of the patent and continued use of the infringing products was the type of conduct Justice Breyer stated was insufficient to constitute willful infringement.<sup>19</sup>

### *Conclusion*

After *Halo*, district courts have taken diverging approaches to the pleading requirements for willful infringement. At a minimum, the plaintiff must plead facts sufficient to demonstrate pre-suit knowledge of the asserted patent. Other district courts may, however, require allegations

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<sup>14</sup> *Id.*

<sup>15</sup> *Princeton Digital Image Corp. v. Ubisoft Entm’t SA*, No. 13-cv-335-LPS-CJB, 2016 WL 6594076 (D. Del. Nov. 4, 2016); *CG Tech. Dev., LLC v. Big Fish Games, Inc.*, No. 2:16-cv-00857-RCJ-VCF, 2016 WL 4521682 (D. Nev. Aug. 29, 2016); *Varian Med. Sys., Inc. v. Elekta AB*, No. 15-cv-871-LPS, 2016 WL 3748772 (D. Del. July 12, 2016).

<sup>16</sup> *Halo Elecs., Inc. v. Pulse Elecs., Inc.*, 136 S. Ct. 1923, 1936 (2016) (Breyer concurring).

<sup>17</sup> *Varian Med. Sys., Inc. v. Elekta AB*, No. 15-cv-871-LPS, 2016 WL 3748772, at \*8 (D. Del. July 12, 2016).

<sup>18</sup> *Princeton Digital Image Corp. v. Ubisoft Entm’t SA*, No. 13-cv-335-LPS-CJB, 2016 WL 6594076, at \*11 (D. Del. Nov. 4, 2016).

<sup>19</sup> *CG Tech. Dev., LLC v. Big Fish Games, Inc.*, No. 2:16-cv-00857-RCJ-VCF, 2016 WL 4521682, at \*14 (D. Nev. Aug. 29, 2016)

sufficient to support a finding of egregious conduct by the defendant. Although the sample size of cases is small, litigants should be aware of these varying standards when seeking enhanced damages under 35 U.S.C. § 284 and when moving to dismiss such claims.