

WSPLA Presents: Implications on Patent Damages from *SRI v.* *Cisco*

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Intro to Willful Patent Infringement

- Pre *Halo* Framework (Tim Billick)
- *Halo v. Pulse* SCOTUS decision (Tim Billick)
- *SRI International v. Cisco* CAFC Decision (Brian McMahon)
- Ambiguity/Frustrations post-*Halo* (Panel)

Enhanced Patent Damages 101

35 U.S.C. 284:

Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court.

When the damages are not found by a jury, the court shall assess them. In either event the court may increase the damages up to three times the amount found or assessed. Increased damages under this paragraph shall not apply to provisional rights under section 154(d).

The court may receive expert testimony as an aid to the determination of damages or of what royalty would be reasonable under the circumstances.

Enhanced Patent Damages 101

What are some factors district courts consider to award enhanced damages?

“Read Factors”

Read Corp. v. Portec Inc., 970 F.2d 816 (Fed.Cir.1992), *abrogated in part on other grounds by Markman v. Westview Instruments, Inc.*, 52 F.3d 967 (Fed.Cir.1995) (*en banc*):

- (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.

Why did we start using the “Read Factors”?

- *Bott v. Four Star Corp.*, 807 F.2d 1567, 1572 (Fed.Cir.1986), identified three factors for consideration in determining when an infringer “acted in [such] bad faith as to merit an increase in damages awarded against him”:
 - (1) whether the infringer deliberately copied the ideas or design of another;
 - (2) whether the infringer, when he knew of the other's patent protection, investigated the scope of the patent and formed a good-faith belief that it was invalid or that it was not infringed; and
 - (3) the infringer's behavior as a party to the litigation.
- *Read* court then drew from a slew of other tort sources for the other factors:
 - “Use of these factors in patent cases is in line with punitive damage considerations in other tort contexts”
 - “To enable appellate review, a district court is obligated to explain the basis for the award, particularly where the maximum amount is imposed.”

Enhanced Patent Damages 101 – Seagate

In re Seagate Technology LLC, 497 F.3d 1360 (Fed. Cir. 2007) (en banc), cert. denied, 129 S. Ct. 1917 (Feb. 25, 2008).

The Seagate Two-Step Test:

1. **Patentee must** “show by clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent.”
 - a. Will not be found at this first step if the accused infringer, during proceedings, “raise[s] a ‘substantial question’ as to the validity or noninfringement of the patent.”
 - b. This bar applies even if the defendant was unaware of the arguable defense when he acted.
2. **Patentee must demonstrate** (again by C&C evidence) that the risk of infringement “was either known or so obvious that it should have been known to the accused infringer.”

Appellate Review of USDC Award (“Triumvirate Review”):

1. Objective recklessness—is reviewed *de novo*;
2. Subjective knowledge—reviewed for substantial evidence;
3. Ultimate decision—whether to award enhanced damages—for abuse of discretion

Enhanced Patent Damages 101 – Seagate

How did we get an objective standard?

In re Seagate Technology LLC, 497 F.3d 1360 (Fed. Cir. 2007) (*en banc*), *cert. denied*, 129 S. Ct. 1917 (Feb. 25, 2008).

Seagate court focuses on willfulness:

- “The term willful is not unique to patent law, and it has a well-established meaning in the civil context. For instance, our sister circuits have employed a recklessness standard for enhancing statutory damages for copyright infringement.”
 - “Reckless Disregard” to the possibility of infringement
- “The word ‘willful’ ... is generally understood to refer to conduct that is not merely negligent.”
- Relies heavily *Safeco Ins. Co. of Am. v. Burr*, 551 U.S. 47 (2007). *Safeco* involved the Fair Credit Reporting Act (“FCRA”), which imposes civil liability for failure to comply with its requirements (and punitive damages)
 - “Significantly, the Court said that this definition [of willfulness] comports with the common law usage, “which treated actions in ‘reckless disregard’ of the law as ‘willful’ violations.”

Enhanced Patent Damages 101 – Seagate

In re Seagate Technology LLC, 497 F.3d 1360 (Fed. Cir. 2007) (en banc), cert. denied, 129 S. Ct. 1917 (Feb. 25, 2008).

- ***Funny procedural posture*** – The CAFC received this case on a writ of mandamus to settle a discovery dispute over a privilege log, but went out of its way to talk about willfulness.
- Specifically, the issues were (1) whether asserting an opinion of counsel (to negate an accusation of willful infringement) would waive the attorney-client privilege to *trial counsel*; or (2) if it would waive work product doctrine of the trial counsel
 - Answer: nope.
 - “Accordingly, we hold that, as a general proposition, relying on opinion counsel's work product does not waive work product immunity with respect to trial counsel.”

Enhanced Patent Damages 101 – *Seagate*

Confused yet?



Fear Not!

Here comes *Halo*

Remember those walls I built
Well, baby, they're tumbling down
And they didn't even put up a fight
They didn't even make a sound

I found a way to let you win
But I never really had a doubt
Standing in the light of your halo
I got my angel now

It's like I've been awakened
Every rule I had you break it
It's the risk that I'm taking
I ain't never gonna shut you out

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Here comes *Halo*



Everywhere I'm looking now
I'm surrounded by your embrace
Baby, I can see your halo
You know you're my saving grace

You're everything I need and more
It's written all over your face
Baby, I can feel your halo
Pray it won't fade away

I can feel your halo (halo) halo
I can see your halo (halo) halo
I can feel your halo (halo) halo
I can see your halo (halo) halo

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Halo Elecs., Inc. v. Pulse Elecs., Inc., 579 U.S. 93 (2016)

Halo Decision

Quick Background

- Halo alleges that Pulse infringed its patents for electronic packages containing transformers designed to be mounted to the surface of circuit boards.
- In 2002, Halo sent Pulse two letters offering to license Halo's patents.
- But an engineer at Pulse said the patents were invalid, so Pulse continued to sell the accused products.

Procedural Posture

- 2007 Halo sues Pulse
- Jury findings: Pulse infringed the patents; and there was high probability of willful infringement
- USDC declined to award damages under Section 284:
 - Pulse's defense "was not objectively baseless, or a 'sham.' "
 - Halo had failed to show "objective recklessness" under the first step of Seagate.

History Lessons from *Halo*

- Patent Act of 1793 mandated treble damages in any successful infringement suit.
- Patent Act of 1836, made enhanced damages discretionary:
 - “[I]t shall be in the power of the court to render judgment for any sum above the amount found by [the] verdict ... not exceeding three times the amount thereof, according to the circumstances of the case.”
 - *Seymour v. McCormick*, 16 How. 480, 488, 14 L.Ed. 1024 (1854):
 - Noted the “injustice” of subjecting a “defendant who acted in ignorance or good faith” to the same treatment as the “wanton and malicious pirate.”
 - There “is no good reason... why taking a man's property in an invention should be trebly punished, while the measure of damages as to other property is single and actual damages.”
 - But “where the injury is wanton or malicious, a jury may inflict vindictive or exemplary damages, not to recompense the plaintiff, but to punish the defendant.” *Id.*, at 489.

History Lessons from Halo, con't

- Patent Act of 1793 mandated treble damages in any successful infringement suit.
- Patent Act of 1836, made enhanced damages discretionary
- Patent Act of 1870, preserved district court discretion to award up to treble damages “according to the circumstances of the case” (still utilizing the willful and wanton language)
- Patent Act of 1952, enacting Section 284 was to reorganize in language to clarify the statement of the statutes.
 - SCOTUS described Section 284—as providing that “punitive or ‘increased’ damages” could be recovered “in a case of willful or bad-faith infringement.” *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 505, n. 20, 84 S.Ct. 1526, 12 L.Ed.2d 457 (1964) (internal quotation marks omitted).

Halo Decision

Given the history, SCOTUS recognizes the need for boundaries in exercising discretion

- “Discretion is not whim. In a system of laws discretion is rarely without limits even when the statute does not specify any limits upon the district courts' discretion.”
- “A motion to a court's discretion is a motion, not to its inclination, but to its judgment; and its judgment is to be guided by sound legal principles.”

Halo Decision

- “The principal problem with *Seagate* 's two-part test is that it requires a finding of objective recklessness in every case before district courts may award enhanced damages. Such a threshold requirement excludes from discretionary punishment many of the most culpable offenders”
- Our recent decision in *Octane Fitness* arose in a different context but points in the same direction. In that case we considered § 285 of the Patent Act, which allows district courts to award attorney's fees to prevailing parties in “exceptional” cases. 35 U.S.C. § 285.
 - (In short, *Seagate* has the same problem in § 284 as *Octane* did with § 285)

Halo Decision, con't

- Section 284 allows district courts to punish the full range of culpable behavior. Yet none of this is to say that enhanced damages *must* follow a finding of egregious misconduct.
- The *Seagate* test is also inconsistent with § 284 because it requires clear and convincing evidence to prove recklessness.
 - Like § 285, § 284 imposes no specific evidentiary burden, much less such a high one.
- SCOTUS rejects “the Federal Circuit's tripartite framework for appellate review” and adopts a simple abuse of discretion standard



Two Takeaways from *Halo*:

“The Seagate test reflects, in many respects, a sound recognition that enhanced damages are generally appropriate under § 284 only in egregious cases.”

“...we eschew any rigid formula for awarding enhanced damages under § 284.”

Halo Decision, con't (Breyer concurrence)

- Breyer (with Kennedy and Alito) wrote separately to emphasize three points:
 1. Evidence of mere knowledge is likely insufficient to show willful infringement.
 - a) Willful infringement would require both knowledge of the patent and some additional evidence of egregious conduct by the defendant.
 2. Reminds us about Section 298:

“The failure of an infringer to obtain the advice of counsel with respect to any allegedly infringed patent, or the failure of the infringer to present such advice to the court or jury, may not be used to prove that the accused infringer willfully infringed the patent or that the infringer intended to induce infringement of the patent.”
 3. Damages awarded for willful infringement should not be used to compensate a plaintiff for the cost of bringing suit as those costs are already subject to being awarded under Section 285 of the Patent Act.

Halo: Enhanced Damages Evolved



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Halo: Enhanced Damages Evolved

Similarities between the *Seagate* and *Halo* framework:

- Factual components still resolved by a jury/fact-finder
- Courts may still consult *Read* factors (or anything else) even though it is not required
- Emphasis is still on “egregious” conduct

Halo: Enhanced Damages Evolved

<i>Seagate</i> Framework	<i>Halo</i> Framework (SCOTUS and CAFC interpretation)
<ol style="list-style-type: none"> Infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent. The risk of infringement “was either known or so obvious that it should have been known to the accused infringer.” 	<p>“No rigid formula” is permitted – even the <i>Read</i> factors are not required.</p>
<p>A litigation-inspired defense (e.g., invalidity, non-infringement) can rebut a claim of willfulness</p>	<p>“Proof of an objectively reasonable litigation-inspired defense to infringement is no longer a defense to willful infringement.” <i>WBIP, LLC v. Kohler Co.</i>, 829 F.3d 1317, 1341 (C.A.Fed. (Mass.), 2016)</p>
<p>Judge acted as a gatekeeper to first determine objective reasonableness before question was sent to the jury.</p>	<p>“We do not interpret Halo as changing the established law that the factual components of the willfulness question should be resolved by the jury.” <i>WBIP, LLC v. Kohler Co.</i>, <i>supra</i>.</p>
<p>Clear and convincing burden of proof</p>	<p>Preponderance of evidence burden of proof</p>
<p>“Triumvirate” standard of review of USDC:</p> <ol style="list-style-type: none"> Objective recklessness—is reviewed <i>de novo</i>; Subjective knowledge—reviewed for substantial evidence; Ultimate decision—whether to award enhanced damages—for abuse of discretion 	<p>Reviewed for abuse of discretion</p>

Halo: Enhanced Damages Evolved

How has *Halo* been applied?

Halo: Enhanced Damages Evolved

How do we treat a finding of willfulness?

- *Halo*: an infringer's subjective bad faith alone may support an award of enhanced damages.
 - “The subjective willfulness of a patent infringer, intentional or knowing, may warrant enhanced damages, without regard to whether his infringement was objectively reckless.”
- *Presidio Components v. American Technical Ceramics*, 875 F.3d 1369, 1382 (Fed. Cir. 2017)
 (“Enhanced damages are generally only appropriate in egregious cases of misconduct, such as willful, wanton, or malicious behavior. But an award of enhanced damages does not necessarily flow from a willfulness finding”)
 - Jury found willful infringement. But USDC denied enhanced damages. Why?
 - After litigation commenced, patentee Presidio sought and obtained a reexam certificate. The new claims read on the accused products, which had already been in circulation for six years.
 - Defendant ATC also had developed defenses based on *Markman* ruling, and narrowed claim scope during this re-examination.

Halo: Enhanced Damages Evolved

“Read Factors” – Old Habits Die Hard

- *Read Corp. v. Portec Inc.*, 970 F.2d 816 (Fed.Cir.1992), *abrogated in part on other grounds by Markman v. Westview Instruments, Inc.*, 52 F.3d 967 (Fed.Cir.1995) (*en banc*):
 - (1) whether the infringer deliberately copied the ideas of another;
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 - (9) whether the defendant attempted to conceal its misconduct.

Halo: Enhanced Damages Evolved

Post-*Halo* examples (affirming enhanced damages)

1. *Arctic Cat Inc. v. Bombardier Recreational Products Inc.*, 876 F.3d 1350 (Fed. Cir. 2017)
(substantial evidence supported the jury's finding of willfulness where the accused infringer "knew about the patents before they issued, conducted only a cursory analysis of the patents, waited years before seeking advice of qualified and competent counsel, and unsuccessfully tried to buy the asserted patents through a third party")
2. *Georgetown Rail Equipment Company v. Holland L.P.*, 867 F.3d 1229 (Fed. Cir. 2017) (finding that substantial evidence supported the jury's finding of subjective willful infringement: (1) circumstantial evidence that the accused infringer had a third party copy the patented invention, (2) that the accused infringer had prior business dealings with the patentee, and (3) knew it needed to acquire a license from the patentee)

Halo: Enhanced Damages Evolved

Post-*Halo* examples (finding no willfulness)

1. *C R Bard Inc. v. AngioDynamics, Inc.*, 979 F.3d 1372, 1380 (Fed. Cir. 2020) (“[w]hile the existence of an invalidity opinion is a relevant factor in determining willfulness, it was not dispositive, and the question of whether AngioDynamics reasonably believed that the asserted claims were invalid was a question of fact for the jury”)
 1. Patentee had introduced evidence of intentional copying, but USDC would not let the question get to the jury. CAFC vacated this decision, ruling it was an abuse of discretion to grant defendant’s JMOL.
2. *Bayer Healthcare LLC v. Baxalta Inc.*, 989 F.3d 964, 987–88 (Fed. Cir. 2021) (affirming a pre-verdict JMOL of no willful infringement, the Federal Circuit found that the evidence adduced at trial merely demonstrated defendant’s “knowledge of the patent and Baxalta's direct infringement of the asserted claims. Knowledge of the asserted patent and evidence of infringement is necessary, but not sufficient, for a finding of willfulness. Rather, willfulness requires deliberate or intentional infringement.”)

SRI International, Inc. v. Cisco Systems, Inc. (SRI IV)

14 F.4th 1323 (Fed. Cir. 2021)

- Panel: Judges Lourie, O’Malley, and Stoll
- Unanimous decision, authored by J. Stoll
- Complicated procedural history highlighted by
 - A first appeal (*SRI II*), where the Federal Circuit sided with Cisco to vacate the jury’s finding of willful infringement; vacated the award of enhanced damages based on willfulness; and vacated the award of attorneys fees’ because it was based in part on willfulness (918 F.3d 1368 (Fed. Cir. 2019))
 - A grant-in-part and denial-in-part of a petition for panel rehearing (773 Fed.Appx. 620)
 - A denial of a petition for rehearing en banc (773 Fed.Appx. 1090)
 - A corrected first appeal opinion, unmodified with respect to its decision on willful infringement, enhanced damages, and attorneys’ fees (930 F.3d 1295)
 - Notably, **the in vacating the jury’s willfulness finding, the Court cited *Halo’s* standard for enhanced damages, and then stated that “the record is insufficient to establish that Cisco’s conduct rose to the level of wanton, malicious behavior required for willful infringement.” (*Id.* at 1309)**

SRI International, Inc. v. Cisco Systems, Inc. (SRI IV) 14 F.4th 1323 (Fed. Cir. 2021)

- On remand (*SRI III*, 2020 WL 1285915 (D.Del. Mar. 18, 2020)):
 - The case was assigned to a different district judge;
 - The district judge reviewed the record to conclude that substantial evidence did NOT support the jury’s finding of willfulness, consistent with the standard announced in *SRI II* (*id.* at *4 (quoting *SRI II* to conclude, “There is no substantial evidence that Cisco’s infringement was ‘wanton, malicious, and bad-faith.’”));
 - The district court also denied the previous award of x2 enhanced damages (without analysis); and
 - It removed any reliance the previous attorneys’ fees award had on willfulness and awarded full attorneys’ fees (“The willfulness underpinning to the attorneys’ fees has been removed by me.”)

SRI International, Inc. v. Cisco Systems, Inc. (SRI IV)

14 F.4th 1323 (Fed. Cir. 2021)

- *SRI IV*: seemed focused on cleaning up its previous decision
 - “On remand, the district court reasonably read our opinion to require a more stringent standard for willful infringement than our other cases suggest—conduct rising to ‘the level of wanton, malicious, and bad-faith behavior”
- The Court reversed the district court on willfulness: “We now hold that substantial evidence supports the jury’s finding of willful infringement”
 - Supporting the holding was (1) evidence that Cisco’s invalidity defenses were unreasonable; (2) evidence that Cisco did not have any reasonable basis for non-infringement, regardless of claim construction; (3) evidence that Cisco’s products did not work the way that Cisco claimed; and (4) the jury found that Cisco actively induced infringement
- The Court also reinstated the enhanced damages award (seemingly *sua sponte*) relying on the *Read* factors ; and it expressly clarified(?) two points:

SRI International, Inc. v. Cisco Systems, Inc. (SRI IV) 14 F.4th 1323 (Fed. Cir. 2021)

- Two points of clarification(?):
 - “[A] finding of induced infringement does not compel a finding of willfulness. Indeed, the standard required for willfulness is different than that required for induced infringement.”
 - “To eliminate the confusion created by our reference to the language ‘wanton, malicious, and bad-faith’ in *Halo*, we clarify that it was not our intent to create a heightened requirement for willful infringement. Indeed, that sentence from *Halo* refers to ‘conduct warranting enhanced damages,’ not conduct warranting a finding of willfulness. (Citation omitted.) As we said in *Eko Brands*, “under *Halo*, the concept of ‘willfulness’ requires a jury to find no more than deliberate or intentional infringement.” (quoting *Eko Brands, LLC v. Adrian Rivera Maynez Enters., Inc.*, 946 F.3d 1367, 1378 (Fed. Cir. 2020) (citing *Halo*, 136 S. Ct. qt 1933))

SRI International, Inc. v. Cisco Systems, Inc. (SRI IV)
14 F.4th 1323 (Fed. Cir. 2021)

- What are the Take-Aways from this decision?
 - What is the current standard for willfulness? Is it that espoused in *Eko Brands* (no more than deliberate or intentional infringement)? If so, how does that differ from the intent standard for inducement?
 - What is the standard for enhanced damages? What role does *Read* still play after *Halo*? What role, if any, does willfulness play going forward?
 - How does this affect best practices for businesses? Precautions to fortify willfulness defenses? Confidence in litigation strategies? Approaches in district court briefing? Confidence in appellate review?