

No. 17-1645

IN THE
Supreme Court of the United States

BOMBARDIER RECREATIONAL PRODUCTS INC.,
ET AL.,

Petitioners,

v.

ARCTIC CAT INC.,

Respondent.

**On Petition for Writ of Certiorari to the
United States Court of Appeals
for the Federal Circuit**

**BRIEF FOR AMICUS CURIAE INTEL
CORPORATION IN SUPPORT OF PETITIONER**

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INTEREST OF AMICUS CURIAE¹

Intel Corporation is the world's largest semiconductor manufacturer, as well as a leading manufacturer of hardware and software products for networking, telecommunications, cloud computing, and other applications. Intel's chips power a large percentage of the world's computers, from everyday desktops and laptops to the servers that form the backbone of the modern digital economy.

Intel owns one of the Nation's largest patent portfolios, with tens of thousands of patents. Intel routinely places in the top ten annually in number of patents granted by the U.S. Patent and Trademark Office (PTO). Intel is therefore a strong supporter of the patent system, and it has often defended its innovations as a plaintiff in infringement suits. At the same time, Intel is also a frequent target of patent-infringement lawsuits, many of which involve claims of questionable merit, and some of which involve allegations that Intel engaged in willful infringement. Intel therefore understands the need to balance protection of legitimate patents with suitably high standards for awarding litigation incentives such as enhanced damages.

¹ Pursuant to Supreme Court Rule 37.6, counsel for *amicus curiae* state that no counsel for a party authored this brief in whole or in part, and no party or counsel for a party, or any other person other than *amicus curiae* or its counsel, made a monetary contribution intended to fund the preparation or submission of this brief. All parties have consented in writing to the filing of this brief.

INTRODUCTION AND SUMMARY OF THE ARGUMENT

In *Halo Electronics, Inc. v. Pulse Electronics, Inc.*, 136 S. Ct. 1923 (2016), this Court rejected the Federal Circuit’s “unduly rigid” test for awarding enhanced damages under 35 U.S.C. § 284. This Court held that district courts should consider all of the circumstances and award enhanced damages only in cases involving “egregious infringement behavior . . . characteristic of a pirate.” 136 S. Ct. at 1932. Instead of implementing that direction, the Federal Circuit has simply tweaked its pre-existing enhanced-damages doctrine, retaining nearly every element of its pre-*Halo* enhanced damages test. The resulting framework is far from “probative of the essential inquiry” that this Court set forth in *Halo. Nautilus, Inc. v. Biosig Instruments, Inc.*, 134 S. Ct. 2120, 2130 (2014). Contrary to this Court’s clear direction, the Federal Circuit now permits enhanced damages to be awarded in cases involving typical commercial conduct and mere negligence as to infringement.

I. In *Halo*, this Court considered the Federal Circuit’s two-pronged test for willfulness, which the Federal Circuit used to determine eligibility for enhanced damages. That test, adopted in *In re Seagate Tech., LLC*, 497 F.3d 1360, 1365 (2007), required that the infringer have acted with both objective and subjective recklessness. This Court abrogated the “objective recklessness” prong of the *Seagate* test because it could improperly “insulat[e] some of the worst patent infringers”—those who had deliberately and consciously

infringed the patent — from being subject to enhanced damages. 136 S. Ct. at 1932.

At the same time, the Court emphasized that enhanced damages are a “punitive’ or ‘vindictive’ sanction” that should be reserved for cases involving “egregious cases of culpable behavior.” *Id.* at 1932. The Court drew that instruction from its historical precedents holding that enhanced damages are used to punish patent infringers for bad-faith behavior, and it analogized enhanced damages to punitive damages in tort cases. *Halo* thus precludes awarding enhanced damages when the defendant was merely negligent as to a risk that its conduct constituted infringement.

II. The Federal Circuit’s implementation of *Halo* achieves precisely the opposite of what this Court intended. Rather than examining the egregiousness of the defendant’s conduct in light of all the circumstances, the Federal Circuit has retained every aspect of its pre-*Halo* approach except the “objective recklessness” test. Under the resulting test, a defendant is willful, and therefore eligible for enhanced damages, if it acted despite a risk of infringement that was known or should have been known — in other words, if it was negligent as to the risk of infringement. *See Western-Geco LLC v. ION Geophysical Corp.*, 837 F.3d 1358 (Fed. Cir. 2016). The Federal Circuit then examines a pre-*Halo* set of nine factors whose stated purpose is to determine the egregiousness of the defendant’s conduct. *See Read Corp. v. Portec Inc.*, 970 F.2d 816, 826-827 (Fed. Cir. 1992). But when the *Read* factors are applied in the case of a merely negligent defendant, they are entirely inadequate to ensure that enhanced damages are awarded only in egregious cases.

Recent lower-court decisions confirm that the *WesternGeco* framework permits courts to award enhanced damages against defendants who were merely negligent with respect to a risk of infringement. Indeed, enhanced damages after *WesternGeco* often turn largely on the factfinder's hindsight view of whether the defendant undertook an adequate investigation of an accusation of infringement — a classic negligence inquiry. In effect, then, *WesternGeco* represents a return to the negligence regime that the Federal Circuit employed before *Seagate*, but abandoned because of its evident tendency to punish routine commercial behavior.

III. The Federal Circuit's approach will impose significant costs on innovative technology companies like Intel, ultimately suppressing innovation. Microprocessors and other computer components implicate hundreds or even thousands of patents. Companies like Intel are therefore frequently presented with licensing demands, and they respond by evaluating whether they practice the patent in question and whether the patent is valid. Upon concluding that the patent is not infringed or is invalid, they will decline to enter into a license. If the patent holder sues, and the factfinder ultimately disagrees with the company's assessment, it is properly subject to compensatory damages under the Patent Act. But under the Federal Circuit's negligence-based approach, this sort of routine, considered commercial conduct could also serve as the basis for an allegation of willful infringement and an award of enhanced damages.

The threat of treble damages based on mere negligence will inhibit innovation. This concern is not merely speculative: the harmful effects of a negligence

regime became quite apparent during the pre-*Seagate* era, when Federal Circuit precedent explicitly required companies to exercise care in investigating infringement allegations. Now as then, technology companies will be forced to attempt to steer well clear of any patents, or to enter into unnecessary licenses as a precautionary measure. In addition, resources that would otherwise be devoted to research and development will be diverted to obtaining opinion letters and taking other measures designed to guard against willfulness allegations.

Indeed, this Court acknowledged precisely these concerns in *Halo*, stating that permitting “enhanced damages [to be] awarded in garden-variety cases” could “disrupt[]” the balance between protecting valid patent rights and promoting innovation through refinement. 136 S. Ct. at 1935. This Court’s review is warranted to ensure that enhanced damages are properly limited to egregious cases, so that their availability does not threaten the very innovation that the patent system seeks to promote.

ARGUMENT

I. In *Halo*, this Court held that enhanced damages should be awarded only in cases of egregious misconduct characterized by knowing or intentional infringement.

In *Halo*, this Court held that “nearly two centuries of application and interpretation of the Patent Act” establish that enhanced damages should be awarded only in cases of “egregious . . . misconduct beyond typical infringement.” 136 S. Ct. at 1935. The Court explained that it had historically understood Section 284, which provides that courts may award “damages up to

three times the amount found,” 35 U.S.C. § 284, to permit the award of “punitive” damages in order to punish particularly “wanton” infringers. *Id.* at 1928. Such infringers are those who act deliberately or knowingly, or in a manner that is otherwise “characteristic of a pirate.” *Id.* at 1932.

A. The question presented in *Halo* concerned the propriety of the “objective recklessness” prong of the threshold test for eligibility for enhanced damages that the Federal Circuit announced in *Seagate*. Under the *Seagate* test, a defendant was eligible for enhanced damages only if the plaintiff established that the defendant’s infringement was “willful,” a standard that had two prongs. First, the defendant’s conduct had to be “objectively reckless,” in that the defendant acted despite an objectively high risk that its conduct constituted infringement. That prong categorically could not be satisfied if the defendant could proffer a reasonable defense at trial. *Halo*, 136 S. Ct. at 1930. Second, the defendant had to have known or had reason to know of the risk of infringement. *Id.*

Halo rejected the first prong of the *Seagate* test, “objective recklessness,” as “unduly rigid.” 136 S. Ct. at 1932. The Court explained that whether enhanced damages are warranted turns on the “culpability” of the defendant’s conduct, and in particular, on whether the defendant acted in a manner that was “willful, wanton, malicious, bad-faith, deliberate, consciously wrongful, flagrant, or — indeed — characteristic of a pirate.” *Id.* The “objective recklessness” test was inconsistent with that understanding because it would preclude enhanced damages whenever a defendant could proffer a reasonable defense at trial — even if the defendant had in fact deliberately and consciously

infringed the patent. *Id.* The Court explained that the “subjective willfulness of a patent infringer, intentional or knowing, may warrant enhanced damages, without regard to whether his infringement was objectively reckless.” *Id.* at 1933.

B. Having rejected the “inelastic constraints of the *Seagate* test,” the Court explained that the determination whether to award enhanced damages should proceed in two steps. First, the district court should make a “finding of egregious misconduct.” 136 S. Ct. at 1933. Then, the district court should exercise its discretion to “take into account the particular circumstances of each case in deciding whether to award damages, and in what amount.” *Id.*

With respect to the first part of the inquiry, the Court held that district courts should find that a defendant engaged in egregious misconduct only if it acted with a level of culpability well above negligence. Two aspects of the opinion make that clear.

First, the Court instructed district courts to evaluate whether enhanced damages are appropriate in light of “[n]early two centuries” of Supreme Court precedent considering such damages. In those cases, the Court consistently stated that enhanced damages would not be appropriate where the defendant had acted with subjective good faith. *See, e.g., Corning v. Burden*, 56 U.S. 252, 271 (1853) (defendant who “acted in good faith, and is not a wanton infringer of the plaintiff’s rights, . . . ought not, therefore, . . . be subjected to the same stringent and harsh rule of damages which might be justly inflicted on a mere pirate”); *Hogg v. Emerson*, 52 U.S. 587, 607 (1850) (enhanced damages not appropriate where defendant “appeared in truth

to be ignorant of the existence of the patent right, and did not intend any infringement”). In other words, a defendant’s subjective good faith would be sufficient to preclude enhanced damages, even if the defendant was negligent as to the existence of the patent or possibility of infringement.

Second, the Court analogized enhanced damages to punitive damages. *Halo*, 136 S. Ct. at 1929, 1930, 1932. Punitive damages traditionally have been reserved for cases involving outrageous conduct, undertaken with at least reckless indifference to the rights of others. *Exxon Shipping Co. v. Baker*, 554 U.S. 471, 492-493 (2008); *see also, e.g., EEOC v. Consol Energy, Inc.*, 860 F.3d 131, 150-151 (4th Cir. 2017) (Title VII permits punitive damages only in cases involving intentional discrimination undertaken with malice or reckless indifference to the rights of others); *Lompe v. Sunridge Partners, LLC*, 818 F.3d 1041, 1055 (10th Cir. 2016) (In applying Wyoming law, “[p]unitive damages are only appropriate for ‘circumstances involving outrageous conduct, such as intentional torts, torts involving malice and torts involving willful and wanton misconduct.’”) (citation omitted). Ordinary negligence has never been considered sufficiently blameworthy to warrant punitive damages. Restatement (Second) of Torts § 908 cmt. b (1979) (rejecting ordinary negligence as a basis for punitive damages).

C. Finally, the *Halo* Court emphasized that although it had made the test for enhanced damages more flexible, the standard remained high enough to avoid stymieing innovation. 136 S. Ct. at 1935. The Court acknowledged the “seriousness” of the concern that awarding enhanced damages “in garden-variety cases” could “disrupt[]” the balance between patent

protection and the freedom that innovative companies need to operate. *Id.* But the Court explained that so long as district courts properly confined enhanced damages to “egregious cases of misconduct beyond typical infringement,” the balance between protecting existing patent rights and fostering further innovation would be preserved. *Id.*

II. The Federal Circuit’s current approach to enhanced damages is irreconcilable with *Halo*.

The Federal Circuit’s implementation of *Halo* achieves precisely the opposite of what this Court intended. Rather than examining the egregiousness of the defendant’s conduct in light of all the circumstances, the Federal Circuit has retained every aspect of its pre-*Halo* approach except the “objective recklessness” test. The perverse effect of that piecemeal fix is to permit courts to award enhanced damages against defendants who were negligent with respect to a risk of infringement — a far cry from the egregious misconduct to which this Court held enhanced damages should be limited.

A. Contrary to *Halo*, the Federal Circuit now permits willfulness to be based on mere negligence.

After *Halo*, the Federal Circuit addressed the test for eligibility for enhanced damages in *WesternGeco v. ION Geophysical Corp.*, 837 F.3d 1358 (2016). *WesternGeco* held that while the Supreme Court had rejected the first prong of the *Seagate* willfulness test, it had not directly addressed, and therefore “did not disturb,” *Seagate*’s second prong. *Id.* at 1362. The Federal Circuit therefore continues to use *Seagate*’s second prong,

now as a standalone inquiry that asks only whether the defendant acted despite a risk of infringement that was “either known or so obvious that it should have been known to the accused infringer.” *Id.* The Federal Circuit applied that standard in this case. Pet. App. 31a-32a.

The *WesternGeco* test is irreconcilable with *Halo* because it allows a factfinder to conclude that a defendant is eligible for enhanced damages if it was negligent with respect to a risk of infringement. The Federal Circuit originally designed the two *Seagate* prongs to work together. The “objective recklessness” prong could be satisfied only if the defendant was unable to proffer any reasonable argument against infringement or validity at trial. In effect, the first prong required the factfinder to find the existence of an extremely high risk of infringement. The second prong then could be satisfied only if the defendant knew or should have known of that extremely high risk. Together, the two prongs required that the defendant was at least reckless with respect to the fact that it had no reasonable argument against infringement or validity. *Seagate*, 497 F.3d at 1371 (“objective recklessness” prong ensured that defendants would not be found willful based on mere negligence).

Without the high threshold set by the first *Seagate* prong, the *WesternGeco* test does not require any particular degree of risk, but instead can be satisfied by the existence of even a small risk of infringement that was known or should have been known. And while the Federal Circuit describes its test as one of “subjective willfulness,” the test does not require any subjective mental state at all. Instead, the factfinder may find the defendant willful based solely on its conclusion

that the risk was sufficiently “obvious” that the defendant “should have known” of it. That is no more than simple negligence. *Global-Tech Appliances, Inc. v. SEB S.A.*, 563 U.S. 754, 770 (2011).

B. The Federal Circuit and some district courts have recently found negligent defendants to be willful.

a. Both the Federal Circuit and district courts have applied the *WesternGeco* standard to find that a defendant that acted at most negligently was eligible for enhanced damages.

In *WCM Indus., Inc. v. IPS Corp.*, 721 Fed. App’x 959, 970-971 (Feb. 5, 2018), the Federal Circuit affirmed a jury verdict of willfulness based on little more than the defendant’s failure to conduct an adequate investigation of the patents in suit. The defendant, IPS, had acquired a company, AB&A, that had created a product that infringed the plaintiff’s patents. The court found that IPS had acted willfully because it knew about the patents; IPS knew that AB&A did not employ full-time product developers in creating the infringing product; IPS did not conduct an investigation into the product’s development before acquiring AB&A; one IPS employee had monitored the patent holder’s patents; and IPS was aware of another patent suit between the patent holder and AB&A at the time of the acquisition. In other words, IPS was found willful solely because it knew of the patents and failed to adequately investigate the possibility that the product infringed.

Similarly, in *Power Integrations, Inc. v. Fairchild Semiconductor Int’l, Inc.*, No. 09-CV-05235-MMC, 2017 WL 130236 (N.D. Cal. Jan. 13, 2017), the district court

upheld the jury's willfulness verdict based primarily on the defendant's failure to undertake an adequate investigation. The court explained that the defendant knew of the patents and knew that the PTO had affirmed their validity in re-examination; it viewed the patent holder as a competitor; and it failed to expeditiously review the patents or undertake an internal analysis of their validity. *Id.* at *3.

Finally, in *Milwaukee Elec. Tool Corp. v. Snap-On Inc.*, 288 F. Supp. 3d 872 (E.D. Wis. 2017), the district court held that even though the defendant had not been aware of the patent when it developed its product, the defendant acted willfully because it "did not perform adequate research" after it was notified of the patent, even as others in the industry took licenses. *Id.* at 887.

b. By contrast, some district courts have applied a more rigorous standard that appears to require knowing or intentional infringement. *See, e.g., Valinge Innovation AB v. Halstead New England Corp.*, No. CV 16-1082-LPS-CJB, 2018 WL 2411218, at *13 (D. Del. May 29, 2018) (stating that "subjective intent to infringe" is necessary, after reviewing *Halo* decision); *Plastic Omnium Advanced Innovation & Research v. Donghee Am., Inc.*, No. CV 16-187-LPS, 2018 WL 2316637, at *11 (D. Del. May 22, 2018) (failure to design around patents after notification of its existence is insufficient). These conflicting understandings of the appropriate post-*Halo* approach only confirm the need for this Court's review.

C. The flaws in the *WesternGeco* willfulness standard are compounded by Federal Circuit’s egregiousness analysis.

1. Under the Federal Circuit’s approach to enhanced damages, both before and after *Halo*, a court considering enhanced damages must conduct a separate egregiousness inquiry after finding that the defendant acted willfully. As with *Seagate*’s second prong, the Federal Circuit has retained its pre-existing egregiousness inquiry, which examines the appropriateness of enhanced damages in light of nine factors. *Read Corp. v. Portec Inc.*, 970 F.2d 816, 826-827 (Fed. Cir. 1992). Applied in conjunction with the *WesternGeco* standard, the *Read* factors are entirely inadequate to limit awards of enhanced damages to cases involving truly egregious misconduct.

The *Read* factors include whether the defendant deliberately copied; whether it investigated the scope of the patent and had a good faith belief in noninfringement or invalidity; whether it behaved badly in the litigation; the defendant’s size and financial condition; the closeness of the case; the duration of the infringement; whether the defendant took any remedial measures; and whether the defendant attempted to conceal the infringement. *Read*, 970 F.2d at 827-828.

In evaluating egregiousness under *Read*, district courts have often employed a mechanical inquiry: they consider each factor in turn, accord each equal weight (regardless of whether the factor independently connotes egregiousness), count up the number that favor enhancement, and determine the enhancement amount on that basis. Courts have retained that approach even after *Halo* cautioned against cabining

district courts' discretion with "unduly rigid" rules. *See, e.g., WCM Indus.*, 721 Fed. App'x at 973 (reversing district court enhancement on the ground that "when only a subset of factors weigh in favor of enhanced damages a court should award less than treble damages"); *VirnetX Inc. v. Apple Inc.*, No. 6:10-CV-417, 2017 WL 9565675, at *25 (E.D. Tex. Sept. 29, 2017) (awarding 50% enhanced damages where four factors favored enhancement and five factors were neutral); *see also Greatbatch Ltd. v. AVX Corp.*, No. CV 13-723-LPS, 2018 WL 1568872, at *7 (D. Del. Mar. 30, 2018); *Canon, Inc. v. Color Imaging, Inc.*, 292 F. Supp. 3d 1357, 1369 (N.D. Ga. 2018).

2. The *Read* analysis exacerbates the ill effects of the *WesternGeco* test. While some of the *Read* factors (e.g., deliberate copying) are designed to examine the egregiousness of the infringer's conduct, the majority either have nothing to do with egregiousness, or do not suggest egregiousness unless the defendant acted with a culpable state of mind. For instance, engagement in a lengthy period of infringement and failure to take remedial measures do not constitute egregious misconduct if the defendant acted pursuant to a good-faith belief that the patent was not infringed or invalid.²

² In addition, the *Read* factor that examines the defendant's litigation conduct may be entirely misplaced. *Halo* suggests that the defendant's litigation conduct should not be taken into account in the enhanced damages analysis because a separate provision of the Patent Act, 35 U.S.C. § 285, provides that a party may be awarded attorney's fees in order to compensate for another party's wrongful litigation conduct. 136 S. Ct. at 1929-1930. Enhanced damages therefore are not properly awarded in order to compensate parties for litigation expenses. *Id.*; *id.* at 1937 (Breyer, J., concurring) ("enhanced damages

When willfulness is based on negligence, then, there is a significant risk that the *Read* factors will militate in favor of awarding enhanced damages against a merely negligent defendant whose conduct was not in any way egregious. For instance, a defendant who was merely negligent as to infringement could be subject to enhanced damages simply because it is a large company, it failed to conduct a reasonable investigation of the scope of the patent, it infringed for a long period of time, and it failed to take remedial measures (because it held the good-faith but unreasonable belief that it was not infringing).

Indeed, district courts have applied the *Read* factors in conjunction with the *WesternGeco* standard to award enhanced damages in situations far removed from egregious misconduct. *See, e.g., SRI Int'l Inc. v. Cisco Sys., Inc.*, 254 F. Supp. 3d 680, 723-724 (D. Del. 2017) (awarding enhanced damages based on Cisco's litigation conduct, its status as the world's largest networking company, its "apparent disdain" for plaintiff, and the fact that Cisco lost on all issues during summary judgment and trial); *Canon*, 292 F. Supp. 3d at 1364, 1369 (awarding enhanced damages primarily because defendant had not conducted an adequate investigation with respect to one product, and the factfinder found that it attempted to "conceal" infringement by suggesting that the products could be sold without high-profile advertising). While these defendants may not have exercised reasonable care with respect to infringement, they did not engage in the sort of egregious or bad-faith conduct that would merit punish-

may not 'serve to compensate patentees' for . . . litigation expenses").

ment beyond compensatory damages. The Federal Circuit’s approach to enhanced damages therefore cannot be reconciled with *Halo*.

III. The *WesternGeco* negligence standard will impose significant costs on technology companies and stifle innovation.

A. Innovative technology companies frequently face willfulness allegations based on ordinary commercial conduct.

Companies like Intel are frequent targets of patent infringement lawsuits, often by nonpracticing entities that assert that Intel’s products infringe vague or potentially invalid patents. Microprocessors and other computer components may each implicate hundreds or thousands of patents. *See, e.g.*, Fed. Trade Comm’n, *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy* 6 (2003) (hereafter “*FTC Report*”) (“One industry representative from a computer hardware firm reported that more than ‘90,000 patents generally related to microprocessors are held by more than 10,000 parties.”) (quoting testimony of Peter Detkin, then-Vice President and Assistant General Counsel at Intel); Mark A. Lemley & Carl Shapiro, *Patent Holdup and Royalty Stacking*, 85 *Tex. L. Rev.* 1991, 2009 (2007). As a result, Intel regularly receives demand letters from other technology companies, asserting that Intel is practicing one of their patents and seeking licensing fees. *See Commil USA, LLC v. Cisco Sys., Inc.*, 135 S. Ct. 1920, 1930 (2015).

In view of the sheer number of patents that may be implicated by Intel’s products, Intel would not be able to conduct its business if, every time it was accused of infringing a patent, it either discontinued the relevant

conduct or immediately acceded to a license. Instead, Intel conducts an analysis of the asserted patent claims to determine whether the infringement allegations may have merit, and whether the patent may be invalid. Often, an asserted patent may be broad and vague, *FTC Report* 5, 7, and Intel will make its best judgment about whether it practices the patents. Intel may also conclude that the patent is of questionable validity, as invalid patents are more likely to be granted in areas of fast-moving and incremental technology. E.g., Christopher R. Leslie, *The Anticompetitive Effects of Unenforced Invalid Patents*, 91 Minn. L. Rev. 101, 105-106 (2006); Julie E. Cohen & Mark A. Lemley, *Patent Scope and Innovation in the Software Industry*, 89 Cal. L. Rev. 1, 42-45 (2001).

If Intel concludes after an investigation that it is likely not practicing the asserted patent, or that the patent is likely invalid, it will reject the licensing demand. That course is not only commercially reasonable, it is necessary to safeguard Intel's ability to innovate. If Intel were to discontinue its innovative activities — or enter into myriad, expensive licenses — based solely on allegations of infringement that the company believes are meritless, it would effectively be consenting to expand the patent monopoly beyond its proper scope. *FTC Report* 5.

2. In some cases, the patent holder will bring suit, alleging that Intel has willfully infringed the patent because Intel had knowledge of the patent but continued its allegedly infringing conduct. Indeed, since *WesternGeco*, Intel has been subject to such allegations with some regularity.

For instance, in *Intel Corporation v. Future Link Systems, LLC*, Future Link alleged that Intel had willfully infringed because (1) Intel knew about the patents as a result of indemnity requests from customers; (2) certain of the patents were cited as prior art in the file histories of unrelated Intel patents; (3) despite having knowledge of the patents, Intel continued its activities; and (4) Intel engineers had not reviewed the patents.³ In briefs filed after *Halo* and *WesternGeco*, Future Link asserted, based on these allegations alone, that Intel’s conduct fell short of the “responsible behavior” required by the Patent Act and was “powerful evidence of willfulness.” Order at 28, Docket entry No. 641, *Intel Corp. v. Future Link Systems, LLC*, 1:14-CV-377 (D. Del.) (July 31, 2017) (citation omitted). Despite the absence of any allegation approaching intentional piracy or egregiousness, the district court denied Intel’s motion for summary judgment. *Id.* at 29.

Similarly, in *AVM Technologies, LLC v. Intel Corporation*, AVM alleged that Intel had willfully infringed because Intel had licensed other patents from AVM’s predecessor, Translogic; Translogic had approached Intel about licensing the patent in suit; and Intel had declined to engage in discussions absent an explanation of which Intel products infringed the patent. Complaint ¶¶ 13-14, Docket entry No. 1, *AVM Technologies, LLC v. Intel Corp.*, No. 1:15-CV-33 (D. Del. Jan. 12, 2015). Intel had examined the patent and determined that Intel’s products did not infringe, and

³ See Intel Mot. for Summ. J., Docket entry No. 551, *Intel Corp. v. Future Link Systems, LLC*, No. 1:14-CV-377 (D. Del.) (Mar. 7, 2017); Future Link Opp. to Mot. for Summ. J., Docket entry No. 565 (Apr. 4, 2017).

that the patent was likely invalid. Br. in Supp. of Mot. for Summ. J. at 10-12, Docket entry No. 452, *AVM, supra*. The willfulness allegations were ultimately withdrawn. Similar allegations have been made, however, in other cases. *See, e.g.*, Complaint, Docket entry No. 1, *Tabaian v. Intel Corp.*, No. 3:18-CV-326 (D. Or. Feb. 21, 2018) (alleging willful infringement because plaintiff initially presented its invention to Intel, but Intel declined to enter into a license); Complaint ¶ 37, Docket entry No. 1, *R2 Semiconductor, Inc. v. Intel Corp.*, No. 2:16-cv-1011 (E.D. Tex. Sept. 12, 2016) (alleging that “since acquiring knowledge” of the patent, Intel knew or should have known that it was infringing).

These examples demonstrate that under the *WesternGeco* regime, routine commercial conduct easily can serve as the basis for an allegation of willfulness. Patent holders can ensure that a potential defendant has knowledge of the patent, either by sending a demand letter or proposing license discussions. Once the patent holder has done so, willfulness allegations can be based on the defendant’s determination that it likely does not infringe and should continue its activities without entering into a license.

B. *WesternGeco* provides little protection against enhanced damages for infringement.

In factual scenarios like those described above, the *WesternGeco* negligence standard will provide scant protection against enhanced damages, even in cases that involve no more than typical commercial conduct.

When a factfinder concludes after trial that the defendant has infringed a valid patent, it necessarily

disagrees with the defendant's pre-litigation determination that its activities do not necessitate a license. As a result, the risk of infringement may strike the factfinder as sufficiently obvious, in hindsight, that the defendant should have recognized it. Similarly, in the frequent situations in which willfulness under *WesternGeco* will turn on the adequacy of the defendant's investigation, a factfinder may be naturally inclined to view as inadequate an investigation that reached what it has concluded is the wrong answer. *See, e.g., WCM Indus.*, 721 Fed. App'x at 970-71; *Power Integrations*, 2017 WL 130236, at *3.

In all events, a company that undertakes an investigation (even one that seems in hindsight to have been inadequate) and concludes that the patent is either not infringed or likely invalid has hardly engaged in the sort of egregious, piratical conduct that is an appropriate basis for enhanced damages. *Halo*, 136 S. Ct. at 1934. Innovative technology companies like Intel routinely make nuanced judgments about the risk of infringement. When those judgments turn out to be wrong — when a court or jury disagrees with the company's assessment and finds the company liable for infringement — the company is appropriately subject to the compensatory remedies provided by the Patent Act. But absent some further misconduct, there is no justification for singling out such considered commercial judgments for special punishment under Section 284. *Id.*

C. The *WesternGeco* negligence standard will stifle innovation.

As this Court recognized in *Halo*, the balance between protecting valid patent rights, and ensuring that

infringement litigation does not dramatically increase the cost of innovating, “can indeed be disrupted if enhanced damages are awarded in garden-variety cases.” 136 S. Ct. at 1935. This Court expected that the high enhanced-damages standard it set in *Halo* would address that “serious[]” concern by ensuring that enhanced damages would be awarded only in cases of truly blameworthy conduct. *Id.* The Federal Circuit’s *WesternGeco* standard defies that expectation, and its likely consequence will be to force companies to expend significant resources attempting to insulate themselves against allegations of willful infringement, whatever their merit.

Indeed, there is no need to speculate about the adverse consequences of the Federal Circuit’s approach. The harmful effects of a negligence regime were amply documented during the pre-*Seagate* era, when Federal Circuit precedent imposed an explicit duty to investigate infringement allegations. Under that regime, the FTC observed, the possibility that treble damages would be awarded gave rise to “a disproportionately large in terrorem effect.” *Id.* at 30. Concerned that whatever infringement analysis they undertook would later be deemed insufficient, some companies attempted to avoid learning of patents, and others regularly secured opinion letters concerning noninfringement or invalidity from outside counsel (a practice that gave rise to difficult disputes over attorney-client privilege). *Id.* at 29. All in all, the negligence rule led companies to divert significant resources from innovation to guarding against potential willfulness allegations.

The Federal Circuit’s post-*Halo* approach threatens a return to those bad old days. Indeed, some commentators have begun recommending that companies ob-

tain opinions of counsel to defend against potential willfulness allegations. *See, e.g.*, J.D. Wooten, *Willful Infringement, Opinion Letters, & Post-Halo Trends* (Sept. 29, 2017), <http://www.ipwatchdog.com/2017/09/29/willful-infringement-opinion-letters-post-Halo/id=88181/>. More broadly, the possibility of treble damages could lead technology companies to agree to more costly settlements before trial — and when cases do go to trial, enhanced damages awards will be more likely under the lower *WesternGeco* standard. Collectively, these costs will hamper innovation, “disrupt[ing]” the balance that this Court sought to preserve in *Halo*.

CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted,

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