

No. 17-1645

IN THE
Supreme Court of the United States

BOMBARDIER RECREATIONAL PRODUCTS INC.
AND BRP U.S. INC.,

Petitioners,

v.

ARCTIC CAT INC.,

Respondent.

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

**BRIEF OF HIGH TECH INVENTORS ALLIANCE
AS *AMICUS CURIAE* IN SUPPORT OF PETITIONERS**

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July 9, 2018

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INTEREST OF *AMICUS CURIAE*¹

The High Tech Inventors Alliance (“HTIA”) is dedicated to advancing a patent system that promotes and protects real investments in technologies and American jobs. Collectively, HTIA’s members employ nearly 500,000 U.S. employees, spent \$63 billion last year alone on research and development, hold more than 115,000 U.S. patents, and have a market capitalization of more than \$2 trillion. HTIA members include the world’s very largest investors in innovation. See PwC, *The 2017 Global Innovation 1000 Study*, <https://www.strategyand.pwc.com/innovation1000>.

HTIA supports Bombardier Recreational Products Inc.’s petition for a writ of certiorari. The Federal Circuit has interpreted this Court’s recent opinion in *Halo Electronics, Inc. v. Pulse Electronics, Inc.*, 136 S. Ct. 1923 (2016), to permit enhanced damages under 35 U.S.C. § 284 against patent infringers for non-willful – and, in fact, merely negligent – infringement. As a result, accused infringers can be punished with treble damages even if they were not aware they were infringing. The risk that even unforeseen patent infringement may result in treble damages chills innovation and economic growth and upsets the careful balancing of policy goals struck by the Patent Act. The Court should grant the petition to restore the enhanced-damages standard articulated in *Halo*.

¹ Pursuant to Supreme Court Rule 37.6, counsel for *amicus* represent that they authored this brief in its entirety and that none of the parties or their counsel, nor any other person or entity other than *amicus* or its counsel, made a monetary contribution intended to fund the preparation or submission of this brief. Pursuant to Rule 37.2(a), counsel for *amicus* also represent that all parties were provided notice of *amicus*’s intention to file this brief at least 10 days before its due date and that the parties have consented to the filing of this brief.

INTRODUCTION

Enhanced damages under the Patent Act, 35 U.S.C. § 284, are “generally reserved for egregious cases of culpable behavior.” *Halo Elecs., Inc. v. Pulse Elecs., Inc.*, 136 S. Ct. 1923, 1932 (2016). The clear case of culpable patent infringement is “the ‘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.” *Id.* (quoting *Seymour v. McCormick*, 57 U.S. (16 How.) 480, 488 (1854)). Correspondingly, the clear case where only single damages are appropriate is the “defendant who acted in ignorance or good faith.” *Id.* at 1928 (quoting *Seymour*, 57 U.S. (16 How.) at 488). The question presented here is whether enhanced damages are available in circumstances where a defendant neither knew it was infringing nor intended to infringe, but rather where a factfinder determines that the defendant simply “should have known” of a risk of infringement. This Court should grant review and hold – consistent with *Halo*’s emphasis on “intentional or knowing” misconduct, *id.* at 1933, as well as with common-law principles – that “should have known” does not equate to the willfulness that justifies punitive damages.

This Court’s decision in *Halo* abrogated the Federal Circuit’s two-part test for willfulness under *In re Seagate Technology, LLC*, 497 F.3d 1360 (Fed. Cir. 2007) (en banc). Under *Seagate*, a patent holder had been required to prove both “objective” and “subjective” recklessness in order to recover enhanced damages. Although the Federal Circuit has acknowledged that *Seagate*’s “objective prong” is no longer good law, it continues to assess willfulness under the remaining “subjective prong” of *Seagate*. The Federal Circuit holds that if this prong is satisfied – even absent any

actual knowledge or intent – it is sufficient to authorize a district court’s discretionary decision to enhance damages. See *WesternGeco L.L.C. v. ION Geophysical Corp.*, 837 F.3d 1358, 1361, 1362 (Fed. Cir. 2016), *rev’d on other grounds*, No. 16-1011 (U.S. June 22, 2018); Pet. App. 32a-33a (applying *WesternGeco* to this case).

The fundamental problem with that approach is that “subjective willfulness” as *WesternGeco* defines it is not willfulness as this Court and others have generally understood and applied that term. Instead, the Federal Circuit’s test permits a conclusion of willfulness based merely on a finding of “a risk of infringement that was either known or so obvious that it *should have been known* to the accused infringer.” *WesternGeco*, 837 F.3d at 1362 (quoting *Halo*, 136 S. Ct. at 1930) (emphasis added). That is a negligence (or, at most, a watered-down recklessness) standard, the lowest degrees of culpability after total innocence. Courts have traditionally recognized that defendants that “should have known” of a risk, but in fact were not subjectively aware of it, are not culpable enough to merit punitive damages. There is no reason to construe the Patent Act otherwise. Yet that is what the Federal Circuit has done.

WesternGeco and its progeny – including this case – cannot be squared with *Halo*’s admonitions that enhanced damages are restricted to egregious and culpable misconduct. The rule the Federal Circuit has embraced also distorts incentives for patentees and accused infringers that are necessary to balance incentives to innovate and to invest, and has created substantial confusion in the district courts. The balance set by the Patent Act (and recognized in *Halo*) should be restored, and this Court’s review is warranted here for that important purpose.

ARGUMENT

I. ENHANCED DAMAGES SHOULD NOT BE USED TO PUNISH MERELY NEGLIGENT PATENT INFRINGEMENT

Section 284 provides that district courts “may increase the damages” for patent infringement “up to three times the amount found or assessed.” This Court explained in *Halo Electronics, Inc. v. Pulse Electronics, Inc.*, 136 S. Ct. 1923 (2016), that although “th[e] language [of § 284] contains no explicit limit or condition” on a court’s discretion, cases “over the past 180 years establish that [enhanced damages] are not to be meted out in a typical infringement case, but are instead designed as a ‘punitive’ or ‘vindictive’ sanction for egregious infringement behavior.” *Id.* at 1931-32. Having adopted that reading of the statute, the Court abrogated as “unduly rigid” *In re Seagate Technology, LLC*, 497 F.3d 1360 (Fed. Cir. 2007) (en banc), which had restricted district courts’ discretion by imposing a two-part test for willfulness with both subjective and objective requirements, because it “exclude[d] from discretionary punishment many of the most culpable offenders, such as the ‘wanton and malicious pirate’ who intentionally infringes another’s patent . . . with no doubts about its validity or any notion of a defense.” *Halo*, 136 S. Ct. at 1932 (quoting *Seymour v. McCormick*, 57 U.S. (16 How.) 480, 488 (1854)).

The Federal Circuit has responded to *Halo* not by abandoning *Seagate* in order to refocus the enhanced-damages inquiry on “egregious cases typified by willful misconduct,” *id.* at 1934, but instead by (1) reaffirming the “subjective” prong of the two-part *Seagate* test as independently sufficient to support enhancement of damages and (2) permitting the “subjective” prong to be satisfied without any inquiry into

the infringer’s actual state of mind at the time of the infringement. The Federal Circuit’s approach cannot be squared with this Court’s instructions in *Halo*. Conduct undertaken without actual knowledge of an unjustifiable risk of infringement is not egregious or culpable and is not punishable by punitive damages under the traditional legal principles that, according to this Court, § 284 embodies.

A. The Federal Circuit Requires a Finding of Willfulness To Impose Enhanced Damages

Under Federal Circuit precedent – before and after *Halo* – enhanced damages are evaluated in a two-step process. *First*, the factfinder – according to the Federal Circuit, a jury – determines whether the defendant willfully infringed the plaintiff’s patent. See *Richardson v. Suzuki Motor Co.*, 868 F.2d 1226, 1250 (Fed. Cir. 1989) (“Willfulness of behavior is a classical jury question of intent.”); *WBIP, LLC v. Kohler Co.*, 829 F.3d 1317, 1341 (Fed. Cir. 2016) (“We do not interpret *Halo* as changing the established law that the factual components of the willfulness question should be resolved by the jury.”).

Second, if the jury finds that infringement was willful, the district court then has discretion to determine “whether enhanced damages should be awarded,” and, “if so, the appropriate extent of the enhancement.” *WesternGeco L.L.C. v. ION Geophysical Corp.*, 837 F.3d 1358, 1364 (Fed. Cir. 2016), *rev’d on other grounds*, No. 16-1011 (U.S. June 22, 2018); see also *Halo*, 136 S. Ct. at 1933 (“[N]one of this is to say that enhanced damages must follow a finding of egregious misconduct.”); *Presidio Components, Inc. v. American Tech. Ceramics Corp.*, 875 F.3d 1369, 1382 (Fed. Cir. 2017) (“[A]n award of enhanced damages does not necessarily flow from a willfulness finding.”).

Although the court retains plenary discretion on the ultimate question of enhancement of damages, the Federal Circuit’s two-step procedure encroaches on the discretion vested in district courts by § 284, creating an improper bias in favor of enhanced damages. For example, the Federal Circuit treats the jury’s finding as determining the question of willfulness; the district court may not reexamine it except under the standards that govern review of jury verdicts. *See Innovention Toys, LLC v. MGA Entm’t, Inc.*, 667 F. App’x 992, 994 (Fed. Cir. 2016) (stating that “‘willful misconduct’ . . . is a sufficient predicate, under *Halo*,” for enhanced damages and that a “predicate of willful misconduct is established by the jury’s finding that [the accused infringer] was subjectively willful under the second part of the *Seagate* standard”); *see also Richardson*, 868 F.2d at 1250 (reversing a refusal to submit willfulness to a jury where the record did not support a directed verdict).

The Federal Circuit has further held that, “[u]pon a finding of willful infringement, a trial court should provide reasons for not increasing a damages award” if it declines to do so. *Jurgens v. CBK, Ltd.*, 80 F.3d 1566, 1572 (Fed. Cir. 1996). “[F]ail[ure] to articulate any reasons for refusing to make such awards” is considered an abuse of discretion. *Tate Access Floors, Inc. v. Maxcess Techs., Inc.*, 222 F.3d 958, 972 (Fed. Cir. 2000); *see also Whitserve, LLC v. Computer Packages, Inc.*, 694 F.3d 10, 37 (Fed. Cir. 2012) (district court abused its discretion by refusing to provide “independent justification” for declining to enhance damages after a willfulness finding).² Thus, when the district

² Courts are also required to explain their reasons for enhancing damages. *See Read Corp. v. Portec, Inc.*, 970 F.2d 816, 828 (Fed. Cir. 1992).

court exercises its discretion, it not only must take willfulness as determined by the jury but also must articulate specific reasons for declining to enhance damages in view of the willfulness finding.

B. *Halo* Abrogated *Seagate*'s Test for Willfulness and Held That Enhanced Damages Should Punish Culpable Conduct

This Court and others have long interpreted § 284 and its predecessors to “provide[] that ‘punitive or increased damages’ could be recovered ‘in a case of willful or bad-faith infringement.’” *Halo*, 136 S. Ct. at 1930 (quoting *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 508 (1964)). Examining the history of enhanced-damages awards under the Patent Act and its predecessors, *Halo* determined that courts historically approved of enhanced patent damages for infringement that is “willful, wanton, malicious, bad-faith, deliberate, consciously wrongful, flagrant, or – indeed – characteristic of a pirate.” *Id.* at 1932.

Halo found that the Federal Circuit had departed from that historical understanding by, in its 2007 *Seagate* decision, adopting a two-part test to constrain district courts’ discretion to impose enhanced damages. Under *Seagate*, a patent owner first had to show that “the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent.” *Seagate*, 497 F.3d at 1371. If the accused infringer could “muster a reasonable (even though unsuccessful) defense at the infringement trial,” *Halo*, 136 S. Ct. at 1933, then the risk of infringement could not have been “objectively high,” and enhanced damages could not be awarded. “If this threshold objective standard is satisfied,” however, then under the second part of the *Seagate* test “the patentee must also demonstrate that this objectively-

defined risk . . . was either known or so obvious that it should have been known to the accused infringer.” *Seagate*, 497 F.3d at 1371. Both the so-called “objective” and “subjective” prongs had to be satisfied before a court could exercise its discretion to enhance damages. *Id.*

Halo held that “Section 284 allows district courts to punish the full range of culpable behavior,” *Halo*, 136 S. Ct. at 1933, with their discretion constrained by “sound legal principles” that “limit[] the award of enhanced damages to egregious cases of misconduct beyond typical infringement,” *id.* at 1935. But *Seagate*’s constraints went beyond those sound legal principles. According to *Halo*, the “principal problem” with *Seagate* was that its threshold “objective” prong “excludes from discretionary punishment many of the *most culpable* offenders, such as the ‘wanton and malicious pirate’ who intentionally infringes another’s patent.” *Id.* at 1932 (emphasis added). The Court reached this conclusion because “[t]he 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.

C. The Federal Circuit Now Holds That a Defendant Lacking Actual or Imputed Knowledge of an Unjustifiable Risk of Infringement Is Subject to Enhanced Damages

Rather than embrace *Halo*’s clear guidance that enhanced damages are meant to punish the most culpable infringers under § 284, the Federal Circuit has instead focused on salvaging as much of *Seagate* as it can. In particular, the court of appeals has stated that “*Halo* did not disturb the substantive standard

for the second prong of *Seagate*, subjective willfulness.” *WCM Indus., Inc. v. IPS Corp.*, 721 F. App’x 959, 969 (Fed. Cir. 2018). “Rather, *Halo* emphasized that subjective willfulness alone – i.e., proof that 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” – can support an award of enhanced damages.” *WesternGeco*, 837 F.3d at 1362 (quoting *Halo*, 136 S. Ct. at 1930, quoting in turn *Seagate*, 497 F.3d at 1371); see also *Milwaukee Elec. Tool Corp. v. Snap-On Inc.*, 288 F. Supp. 3d 872, 890 n.9 (E.D. Wis. 2017) (“[T]he Federal Circuit has taken pains to observe that the standard for subjective willfulness was not altered by *Halo*.”), *appeal pending*, No. 18-1516 (Fed. Cir. filed Feb. 5, 2018). *WesternGeco*’s formulation of the “subjective willfulness” test has frequently been repeated in the Federal Circuit – including in the decision below. See Pet. App. 32a-33a; see also Pet. 9 n.1 (collecting district court citations).

WesternGeco’s definition of “subjective willfulness,” read broadly, purports to lower the mental state required to trigger enhanced damages below one that might properly be associated with culpability: An accused infringer can be charged with willful conduct solely because the jury concludes that “a risk” of infringement “should have been known.” *WesternGeco*, 837 F.3d at 1362. Under this standard, there is no requirement that the accused infringer either have actually known it was infringing or have recklessly disregarded a known and unjustifiable risk of infringement. It is enough to find willfulness that, in the jury’s view, the infringer should have taken greater care to identify and avoid a risk of infringement.

Discussing the importance of measuring culpability “against the knowledge of the actor at the time of the challenged conduct,” in *Halo* this Court referred to a recklessness standard, as the mental state that falls between negligence and intent. *Halo*, 136 S. Ct. at 1933 (citing *Safeco Ins. Co. of Am. v. Burr*, 551 U.S. 47, 69 (2007)). Recklessness, at minimum, requires “an *unjustifiably high* risk of harm that is either known or so obvious that it should be known.” *Safeco*, 551 U.S. at 68 (quoting *Farmer v. Brennan*, 511 U.S. 825, 836 (1994)) (emphasis added); *id.* at 69 (“It is this *high risk* of harm, objectively assessed, that is the essence of recklessness at common law.”) (citing W. Page Keeton et al., *Prosser and Keeton on Law of Torts* § 34, at 213 (5th ed. 1984) (“Keeton”)). *WesternGeco*, however, omits the requirement that the risk be “unjustifiably high.” Under *WesternGeco*’s flawed formulation of the standard, it is enough to find willfulness if, in the jury’s view, the infringer should have taken greater care to identify and avoid “a risk” of infringement – no matter how small the risk or how justifiable it was under the circumstances.

D. Actual Knowledge of the Risk of Infringement Should Be Required To Support Enhanced Damages Under § 284

Bombardier’s trial predated *WesternGeco*, and the district court instructed the jury to find willful infringement if Bombardier “actually knew or should have known that its actions constituted an unjustifiably high risk of infringement of a valid and enforceable patent.” Pet. App. 46a. While these instructions are preferable to the standard espoused by *WesternGeco*, they remain incorrect. Under *Halo*, a defendant who lacks actual knowledge of an unjustifiably high risk of infringement lacks sufficient culpability to warrant the award of enhanced damages.

The requirement that a defendant, to be held willful, have actual knowledge of an unjustifiably high risk of infringement is consistent with the hierarchy of mental states set forth by this Court in *Global-Tech Appliances, Inc. v. SEB S.A.*, 563 U.S. 754 (2011). There, the Court explained that “a reckless defendant is one who . . . knows of a substantial and unjustified risk of . . . wrongdoing, and a negligent defendant is one who should have known of a similar risk but, in fact, did not.” *Id.* at 770 (citations omitted). Under the *Global-Tech* taxonomy, the instructions in this case permitted the jury to find willfulness where a defendant merely acted negligently, rather than recklessly. Because the jury could have found Bombardier willful because of a risk that it “should have . . . but, in fact, did not” know, the instruction equated willfulness with negligence, rather than requiring at least recklessness.³

In any event, regardless of whether the jury instruction here is classified as negligence or recklessness, this Court should now clarify that actual knowledge of an unjustifiable risk of infringement is required for a finding of willfulness. By allowing conduct that disregards a risk that “should have been known” but was not actually known to justify enhanced damages under § 284, the Federal Circuit has rejected “sound legal principles developed over nearly two centuries of application and interpretation of the Patent Act” that “limit[] the award of enhanced damages to egregious

³ Bombardier’s jury instruction does, however, track the definition of “civil recklessness” as formulated by other decisions of this Court. *See Farmer*, 511 U.S. at 836 (“The civil law generally calls a person reckless who acts . . . in the face of an unjustifiably high risk of harm that is either known or so obvious that it should be known.”); *see also Safeco*, 551 U.S. at 69 (similar). *See infra* p. 14 & n.4.

cases of misconduct beyond typical infringement.” *Halo*, 136 S. Ct. at 1935. To apply enhanced damages to negligent conduct like that defined in *WesternGeco* would conflict with (1) *Halo*’s characterization of the scope of permissible discretion under § 284 and (2) well-established principles about the availability of punitive damages generally.

1. By defining “subjective willfulness” to include actions taken despite a risk that “should have been known” but was not actually known, *WesternGeco* exceeds the “channel of discretion” under § 284 that the Court identified in *Halo*. 136 S. Ct. at 1932 (citation omitted). *Halo* explained that enhanced patent damages are “generally reserved for egregious cases of culpable behavior.” *Id.* An accused infringer’s failure to recognize a risk like that envisioned in *WesternGeco* is neither egregious nor culpable. Nor is it “willful, wanton, malicious, bad-faith, deliberate, consciously wrongful, flagrant, or . . . characteristic of a pirate.” *Id.* *WesternGeco* is thus in conflict with *Halo* on its face.

The should-have-known standard also reintroduces an aspect of *Seagate* that this Court rejected in *Halo*: determining an infringer’s culpability based on facts of which the infringer *was not aware*. *Halo* rejected the objective-recklessness test, in part, because under that test the infringer’s ability to “muster a reasonable (even though unsuccessful) defense at the infringement trial . . . insulates the infringer from enhanced damages, even if he did not act on the basis of the defense or was even aware of it.” *Id.* at 1933. That was wrong, the Court said, because “culpability is generally measured against the knowledge of the actor *at the time* of the challenged conduct.” *Id.* (emphasis added). If the absence of willfulness cannot

be established by imputing knowledge (such as legal defenses) to an infringer retrospectively, it makes little sense to find that same infringer willful by imputing knowledge of a risk of infringement of which the infringer was, at the time, unaware.

The actual-knowledge standard is also more consistent with the Patent Act's requirement that "[t]he failure of an infringer to obtain the advice of counsel . . . may not be used to prove that the accused infringer willfully infringed the patent." 35 U.S.C. § 298. Yet the should-have-known standard invites the jury to hypothesize what actions – such as seeking advice of counsel – the infringer should have taken after it learned about the patent. *See also Halo*, 136 S. Ct. at 1936 (Breyer, J., concurring) (“[T]he Court’s references to ‘willful misconduct’ do not mean that a court may award enhanced damages simply because the evidence shows that the infringer knew about the patent *and nothing more*.”). Enhanced damages can be imposed against an infringer based on the jury’s counterfactual conjectures about actions the infringer could have taken, even though, in reality, the infringer did not take action because it did not even know about the risk of infringement.

2. *Halo* also explained that enhanced patent damages are “‘vindictive or exemplary damages’” that serve “‘not to recompense the plaintiff, but to punish the defendant.’” 136 S. Ct. at 1928 (quoting *Seymour*, 57 U.S. (16 How.) at 489); *see also id.* at 1929-30 (tracing the history of “punitive” patent damages that served as the backdrop for Congress’s codification of § 284). “[P]unitive damages should only be awarded if the defendant’s culpability, after having paid compensatory damages, is so reprehensible as to warrant the imposition of further sanctions to achieve punishment

or deterrence.” *State Farm Mut. Auto. Ins. Co. v. Campbell*, 538 U.S. 408, 419 (2003). Given the high degree of culpability required, courts and commentators have long recognized that negligent conduct is ineligible for punitive damages. See Keeton § 2, at 9-10 (“[t]here must be circumstances of aggravation or outrage” to award punitive damages, and thus “[t]here is general agreement that, because it lacks this element, mere negligence is not enough”).

Some courts hold that reckless conduct can trigger punitive damages. But the recklessness standard that may justify punitive damages is the more culpable and more demanding form of recklessness (“subjective” or “criminal” recklessness)⁴ recognized in cases such as *Global-Tech*, 563 U.S. at 770, rather than the less culpable version discussed in *Safeco*. Punitive damages are “quasi-criminal,” *Cooper Indus., Inc. v. Leatherman Tool Grp., Inc.*, 532 U.S. 424, 432 (2001) (citation omitted), and serve “to punish . . . culpable behavior,” *Halo*, 136 S. Ct. at 1933. The Court has expressly tied “criminal” recklessness to punitive damages standards. See *Kolstad v. American Dental Ass’n*, 527 U.S. 526, 536 (1999) (citing to *Farmer*’s “subjective form of recklessness” and stating the defendant must act “in the face of a perceived risk that its actions will violate federal law to be liable in punitive damages”).

Regardless of terminology, actual knowledge of – and indifference to – a risk of harm is required to impose punitive damages. “Since these damages are

⁴ See *Farmer*, 511 U.S. at 836-37 (“The criminal law . . . generally permits a finding of recklessness only when a person disregards a risk of harm of which he is *aware*.”) (emphasis added); see also Model Penal Code § 2.02(2)(c) (Am. Law Inst., Proposed Official Draft 1962) (“[a] person acts recklessly . . . when he consciously disregards a substantial and unjustifiable risk”).

assessed for punishment . . . a positive element of conscious wrongdoing is always required.” Charles T. McCormick, *Handbook on the Law of Damages* § 79, at 280-81 (1935); *see also* Dan B. Dobbs et al., *The Law of Torts* § 483 (2d ed. 2018) (“[P]unitive damages can be awarded only when the tortfeasor causes harm by conduct that is ‘outrageous’ or ‘that constitutes an extreme departure from lawful conduct and that is motivated by or evinces an antisocial mental state as well.’”) (footnotes and citations omitted). The Court has recognized that punitive damages, “at a minimum, require[] recklessness in its subjective form.” *Kolstad*, 527 U.S. at 536.

Similarly, in patent cases courts historically “characterized enhanced damages as justified where the infringer acted deliberately or willfully,” *Halo*, 136 S. Ct. at 1929, not where the infringer merely “should have known” – but did not know – that it risked infringement. *See, e.g., Hogg v. Emerson*, 52 U.S. (11 How.) 587, 607 (1850) (enhanced damages inappropriate if the infringer “appeared in truth to be ignorant of the existence of the patent right, and did not intend any infringement”); *B.F. Goodrich Co. v. Consolidated Rubber Tire Co.*, 251 F. 617, 625 (7th Cir. 1918) (affirming a refusal to enhance damages because, despite some evidence of willfulness, the court was not “clearly convinced that . . . good faith [was] absent”); *Toledo Computing Scale Co. v. Moneyweight Scale Co.*, 178 F. 557, 567 (C.C.N.D. Ill. 1910) (“[W]hile showing an aggravated case of unfair competition, [the facts] should not subject defendant to increased damages . . . , because it was not then knowingly infringing.”), *aff’d*, 187 F. 826 (7th Cir. 1911).

Because enhanced damages awarded under § 284 are punitive damages, they should be restricted to

“conscious wrongdoing” and similarly willful conduct. Failure to act in the face of an unrecognized risk should not be so punished. *See* Pet. 15-16. This Court should grant review and reverse the decision below to reaffirm that important principle.

II. THE ENHANCED-DAMAGES STANDARD IS A RECURRING ISSUE IMPORTANT TO THE INNOVATION ECONOMY

On appeal, Bombardier argued that the should-have-known standard was erroneous under *Halo*. The Federal Circuit dismissed this argument out of hand, stating that “this Court addressed this issue [in *WesternGeco*] and concluded” that *Seagate*’s “subjective willfulness” prong now served as a standalone, sufficient basis for willfulness. Pet. App. 32a. The Federal Circuit subsequently denied Bombardier’s petition for en banc review, which would have enabled the court to revisit *WesternGeco*. Because the court of appeals has made clear that its views on this subject are entrenched, review by this Court is the final option for correcting the Federal Circuit’s standard for willful infringement.

The Federal Circuit’s should-have-known standard not only is unfair to individual defendants (by exposing them to punishment for conduct that does not merit it), but also upsets the careful policy balance struck by Congress in the Patent Act. And although district courts enjoy the discretion to decline to enhance damages even if a jury finds an accused infringer’s conduct to have been willful, judicial discretion is not sufficient to mitigate the harm done by the Federal Circuit’s “subjective willfulness” standard.

A. The Federal Circuit’s Enhanced-Damages Test Unsettles Congress’s Balancing of Policy Interests in Patent Law

“The patent law was designed for the public benefit, as well as for the benefit of inventors.” *Shaw v. Cooper*, 32 U.S. (7 Pet.) 292, 320 (1833). For that reason, “patent law reflects ‘a careful balance between the need to promote innovation’ through patent protection, and the importance of facilitating the ‘imitation and refinement through imitation’ that are ‘necessary to invention itself and the very lifeblood of a competitive economy.’” *Halo*, 136 S. Ct. at 1935 (quoting *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 146 (1989)). But “[t]hat balance can indeed be disrupted if enhanced damages are awarded in garden-variety cases,” *id.*, and the Federal Circuit’s should-have-known standard threatens just such disruption.

Since 1793, Congress has used (and the courts have recognized) punitive damages as a tool to create the proper incentives for patentees and the public: patent infringement is a strict-liability offense that triggers compensatory damages, but “egregious” and “culpable” infringement can be subject to treble damages.

The principle that punitive damages “are not to be meted out in a typical infringement case,” *id.* at 1932, has a significant effect on the cost-benefit analysis that businesses undertake when they are deciding whether to invest in a new product or technology. A threat of treble damages for non-willful infringement alters that analysis. If a business fears that a new activity may create “a risk” of infringement, even a risk of which the business is unaware, the threat of treble damages may prompt the business to avoid socially beneficial innovation permitted under the

patent law. See *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722, 731 (2002) (“[T]he public . . . should be encouraged to pursue innovations, creations, and new ideas beyond the inventor’s exclusive rights.”). Likewise, businesses that believe they have meritorious arguments against infringement allegations will have to account for the risk that treble damages may be applied if they are ultimately found to have negligently infringed. Cf. *Blonder-Tongue Labs., Inc. v. University of Illinois Found.*, 402 U.S. 313, 344 (1971) (recognizing the Patent Act’s policy of “encourag[ing] authorit[ity] testing of patent validity”).

As the Court has recognized, “[a] zone of uncertainty which enterprise and experimentation may enter only at the risk of infringement claims would discourage invention only a little less than unequivocal foreclosure of the field.” *United Carbon Co. v. Binney & Smith Co.*, 317 U.S. 228, 236 (1942). The uncertainty of liability for treble damages risks chilling socially beneficial investment and innovation.

The proper balance of responsibility between patentees and the public is a highly sensitive policy question with enormous implications for the innovation economy. *WesternGeco*’s expansion of enhanced-damages liability beyond its historical bounds, and beyond those defined in *Halo*, is improper and should be rejected by the Court.

B. The Presence of Judicial Discretion Is Not Sufficient To Fix the Problem

Halo made clear that even if a factfinder determines that an accused infringer acted willfully, “[a]s with any exercise of discretion, courts should continue to take into account the particular circumstances of each case in deciding whether to award damages, and in

what amount.” 136 S. Ct. at 1933. Certainly, the case-by-case exercise of judicial discretion is an important part of the statutory structure for determining when punitive damages are appropriate. But courts’ use of back-end discretion can neither repair *WesternGeco*’s doctrinal confusion nor alleviate its harmful effects on investment in new technologies.

First, as a practical matter, many courts deny summary judgment on lack of willfulness because the should-have-known standard is seen as a question best left to the jury. Therefore, even if the plaintiff has no evidence that an accused infringer had actual knowledge that it was at risk of infringing, summary judgment on the willfulness question is often denied. *See, e.g., Intel Corp. v. Future Link Sys., LLC*, 268 F. Supp. 3d 605, 623 (D. Del. 2017) (“It may be difficult to see how a reasonable factfinder would view the panoply of conduct alleged by Future Link (if proven) to be ‘egregious . . . wanton, bad-faith, deliberate, consciously wrongful, flagrant, or – indeed – characteristic of a pirate.’ However, taking the evidence in the light most favorable to Future Link, the Court concludes that it cannot grant summary judgment of non-willfulness.”) (quoting *Halo*, 136 S. Ct. at 1932). Such evidence of willful infringement may also color the jury’s liability determination, regardless of whether the court subsequently exercises its discretion to forgo or to impose enhanced damages. In this way, the should-have-known standard gives additional leverage to plaintiffs, further skewing the incentives facing patent litigants. *See supra* Part II.A.

Second, courts have reconciled the self-evident incompatibility between the willfulness standards in *Halo* and *WesternGeco* in different ways, resulting in inconsistent rulings and unpredictable outcomes. For

example, some courts have adopted *WesternGeco*'s should-have-known standard verbatim, including in jury instructions. See, e.g., Jury Instructions at 31, *Precision Fabrics Grp., Inc. v. Tietex Int'l, Ltd.*, No. 17-cv-03037-TDS (D.S.C. Mar. 9, 2018), ECF 347 (instructing the jury that “[t]he willfulness inquiry is one of subjective reasonableness, which has been described as proof that the defendant acted despite a risk of infringement that was known or so obvious that it should have been known to the accused infringer”).⁵ Others maintain the should-have-known standard but add that the risk at issue must have been “high” or “unjustified.” See, e.g., *Continental Circuits LLC v. Intel Corp.*, No. CV16-2026 PHX DGC, 2017 WL 679116, at *11 (D. Ariz. Feb. 21, 2017) (“Courts in this Circuit have held, after *Halo*, that awareness of the patent and continued use of the infringing product despite ‘an objectively high likelihood’ of infringement or ‘reckless disregard’ of that risk no longer compel a finding of willfulness.”).⁶ Yet others jettison the should-have-known standard and quote *Halo* directly. See, e.g., *Polara Eng’g, Inc. v. Campbell Co.*, 237 F. Supp. 3d 956, 976-77 (C.D. Cal. 2017) (instructing the jury to determine whether the defendant’s conduct

⁵ See also *Zen Design Grp. Ltd. v. Scholastic, Inc.*, No. 16-12936, 2018 WL 3096705, at *3 (E.D. Mich. June 22, 2018) (citing *WesternGeco*’s “subjective” willfulness standard); *ZitoVault, LLC v. IBM Corp.*, No. 3:16-CV-0962-M, 2018 WL 2971131, at *1 (N.D. Tex. Mar. 29, 2018) (similar); *Plastic Omnium Advanced Innovation & Res. v. Donghee Am., Inc.*, No. 16-187-LPS, 2018 WL 2316637, at *10 (D. Del. May 22, 2018) (similar).

⁶ See also Pet. App. 32a (quoting jury instructions that required the risk to have been “unjustifiably high”); *Sprint Commc’ns Co. v. Time Warner Cable, Inc.*, No. 11-2686-JWL, 2017 WL 978107, at *13 (D. Kan. Mar. 14, 2017) (requiring the risk to have been “high”).

was “egregious,” and that “‘egregious conduct’ could be described as ‘willful, wanton, malicious, bad faith, deliberate, consciously wrongful, flagrant, or characteristic of a pirate’”) (quoting *Halo*, 136 S. Ct. at 1932).⁷ Such variability is the unsurprising result of *WesternGeco*’s departure from both *Halo* and traditional punitive damages standards. It makes inconsistent outcomes unavoidable.

Inconsistency in standards for punishment has long been recognized as undesirable and indeed fundamentally unfair. In the patent context, where the primary purpose of the law is to promote innovation and investment in new technologies, uncertainty is especially harmful because it deters investment by potential defendants, *see supra* Part II.A, without providing any corresponding clarity about the rights of patent holders. *See Laboratory Corp. of Am. Holdings v. Metabolite Labs., Inc.*, 548 U.S. 124, 127 (2006) (“Patent law seeks to avoid the dangers of overprotection just as surely as it seeks to avoid the diminished incentive to invent that underprotection can threaten.”); *General Elec. Co. v. Wabash Appliance Corp.*, 304 U.S. 364, 369 (1938) (“The [Patent Act] seeks to guard against unreasonable advantages to the patentee and disadvantages to others arising from uncertainty as to their rights.”).

More broadly, courts have long recognized the importance of a clear line separating culpable, punishable conduct from mere carelessness that might

⁷ *See also* Fed. Cir. Bar Ass’n Model Patent Jury Instruction 3.10 (July 2016) (citing *Halo* and declining to include the should-have-known standard), <https://www.fedcirbar.org/IntegralSource/Model-Patent-Jury-Instructions>; Am. Intell. Prop. Ass’n Model Patent Jury Instruction 12.0 (Mar. 15, 2017) (similar), <https://goo.gl/FfJU28>.

trigger compensatory liability. As Justice Holmes said in the context of a criminal-liability standard, “it is reasonable that a fair warning should be given to the world[,] in language that the common world will understand, of what the law intends to do if a certain line is passed. To make the warning fair, so far as possible the line should be clear.” *McBoyle v. United States*, 283 U.S. 25, 27 (1931); *see also BMW of N. Am., Inc. v. Gore*, 517 U.S. 559, 574 (1996) (“[e]lementary notions of fairness enshrined in our constitutional jurisprudence dictate that a person receive fair notice” about “the conduct that will subject him to punishment”). If *WesternGeco* remains the Federal Circuit’s test for “subjective willfulness,” businesses and individuals will be denied the opportunity to order their activities around a clear, universally accepted standard for enhanced-damages eligibility.

CONCLUSION

The petition for a writ of certiorari should be granted.

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July 9, 2018