No. 21-1888

United States Court of Appeals for the Federal Circuit

CENTRIPETAL NETWORKS, INC.,
Plaintiff-Appellee,

v.

CISCO SYSTEMS, INC.,
Defendant-Appellant.

On Appeal from the United States District Court for the Eastern District of Virginia, Case No. 2:18-cv-94, The Honorable Henry Coke Morgan, Jr.

BRIEF OF HIGH TECH INVENTORS ALLIANCE AS *AMICUS CURIAE* IN SUPPORT OF DEFENDANT-APPELLANT

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UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

CERTIFICATE OF INTEREST

Case Number	21-1888
Short Case Caption	Centripetal Networks, Inc. v. Cisco Systems, Inc.
Filing Party/Entity	High Tech Inventors Alliance as Amicus Curiae

Instructions: Complete each section of the form. In answering items 2 and 3, be specific as to which represented entities the answers apply; lack of specificity may result in non-compliance. **Please enter only one item per box; attach additional pages as needed and check the relevant box**. Counsel must immediately file an amended Certificate of Interest if information changes. Fed. Cir. R. 47.4(b).

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1. Represented Entities. Fed. Cir. R. 47.4(a)(1).	**2. Real Party in Interest.** Fed. Cir. R. 47.4(a)(2).	**3. Parent Corporations and Stockholders.** Fed. Cir. R. 47.4(a)(3).
Provide the full names of all entities represented by undersigned counsel in this case.	Provide the full names of all real parties in interest for the entities. Do not list the real parties if they are the same as the entities. ☑ None/Not Applicable	Provide the full names of all parent corporations for the entities and all publicly held companies that own 10% or more stock in the entities. ☑ None/Not Applicable
High Tech Inventors Alliance		

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5. Related Cases. Provide the case titles and numbers of any case known to be pending in this court or any other court or agency that will directly affect or be directly affected by this court's decision in the pending appeal. Do not include the originating case number(s) for this case. Fed. Cir. R. 47.4(a)(5). See also Fed. Cir. R. 47.5(b).

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Reexamination No. 90/014,476 (USPTO)		

6. Organizational Victims and Bankruptcy Cases. Provide any information required under Fed. R. App. P. 26.1(b) (organizational victims in criminal cases) and 26.1(c) (bankruptcy case debtors and trustees). Fed. Cir. R. 47.4(a)(6).

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INTEREST OF *AMICUS CURIAE*

High Tech Inventors Alliance (HTIA) is a consortium of some of the world's most innovative technology companies: Adobe, Amazon, Cisco, Dell, Google, Intel, Microsoft, Oracle, Salesforce, and Samsung. It supports fair and reasonable patent policy by publishing policy research, providing testimony and comments to Congress and government agencies, and sharing industry perspective with courts considering issues important to the technology industry.[1]

HTIA's members collectively invest more than $130 billion in research and development each year and have been granted more than 300,000 patents. Due to the complexity and success of their products, HTIA's members also are frequently the subject of patent-infringement claims. They therefore have a unique perspective as both plaintiffs and defendants in high-stakes patent litigation.

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[1] Pursuant to Federal Rule of Appellate Procedure 29(a)(4)(E), *amicus curiae* affirms that no party or counsel for a party authored this brief in whole or in part and that no person other than *amicus curiae,* its members, or its counsel has made any monetary contributions intended to fund the preparation or submission of this brief.

Cisco is a member of HTIA, but was excluded from HTIA's decision whether to file this brief, from HTIA's decisions regarding the content of the brief, and from participation in the brief's preparation.

The district court below awarded Plaintiff $1.1 billion in enhanced damages pursuant to 35 U.S.C. § 284. To reach that result, the court performed a cursory analysis inconsistent with the limitations on enhanced damages recognized by the Supreme Court in *Halo Electronics, Inc. v. Pulse Electronics, Inc.*, 136 S. Ct. 1923 (2016). As a result of their familiarity with patent litigation as both plaintiffs and defendants, HTIA's members recognize the importance of appropriate protections for patent owners as well as the need for limitations on awards of enhanced damages so that innovation is not obstructed. They therefore submit this brief to urge the Court to adopt guidance grounded in Supreme Court precedent for district courts to follow when determining whether and in what amount to award enhanced damages.

INTRODUCTION AND SUMMARY OF ARGUMENT

The district court here awarded Plaintiff over $1.1 *billion* in enhanced damages. Appx209. It purported to justify that gigantic amount by engaging in a cursory analysis that both violates Supreme Court precedent and confirms the need for additional guidance from this Court regarding the standards and procedure that district courts should follow in making an enhanced-damages award.

In *Halo Electronics, Inc. v. Pulse Electronics, Inc.*, 136 S. Ct. 1923 (2016), the Supreme Court overruled this Court's former test for determining when enhanced damages are appropriate under 35 U.S.C. § 284, and

replaced that test with a new standard. *Id*. at 1935-36. Now, the threshold question in determining whether enhanced damages should be awarded is whether the infringement was "willful" based on the subjective knowledge and intent of the infringer at the time of its culpable actions. *Id*. at 1933. Further, the Court clarified that not all willful infringement merits enhanced damages. Rather, enhanced damages are reserved for particularly egregious misconduct equivalent to that of "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*. at 1932 (quoting *Seymour v. McCormick,* 16 How. 480, 488 (1854)).

The district court noted *Halo Electronics*' existence, but nonetheless focused its analysis on the factors outlined by this Court's pre-*Halo Electronics* decision in *Read Corp. v. Portec, Inc.*, 970 F.2d 816 (Fed. Cir. 1992). Appx195-197. Even though *Halo Electronics* does not mention—let alone endorse—the *Read* factors, the district court marched through them in a mechanical fashion and determined that they "weigh[ed] in favor of enhanced damages." Appx196-203. The court then evaluated the "objective reasonable[ness]" of defendant Cisco's litigation stances—a step expressly rejected by *Halo Electronics* that also repeated one of the *Read* factors—and, based on the *Read* factors and its conclusion that Cisco's conduct was

objectively unreasonable, concluded that Cisco's infringement was both willful and sufficiently egregious to merit enhanced damages. Appx203-204. Finally, the court determined the amount of enhanced damages to award—$1.1 billion, or 1.5 times the compensatory-damages award—in a single paragraph, with no additional analysis other than its observation that Cisco had prevailed with respect to one of the patents at issue. Appx204.

But *Halo Electronics* rejected a "rigid" framework for determining enhanced damages and instructed that district courts should instead "take into account the particular circumstances of each case in deciding whether to award damages," free from "inelastic constraints" like the check-the-box approach used by the district court here. 136 S. Ct. at 1933-34. Moreover, the Supreme Court directed district courts to focus on the subjective willfulness of the infringer at the time of its allegedly culpable actions—by assessing the infringer's knowledge and intent—in determining whether the infringer's conduct was sufficiently "characteristic of a pirate" to merit enhanced damages. *Id*. at 1932.

The district court's rote reliance on the *Read* factors is wholly inconsistent with the standard prescribed by the Supreme Court. In addition, several of those factors (such as the defendant's litigation behavior, the defendant's size and financial condition, the closeness of the case, and the duration of the infringement) either have nothing to do with the infringer's subjective willfulness at the time of the alleged infringement or must be

refocused to align with *Halo Electronics*. Still another factor invoked by the lower court (the defendant's investigation of the alleged infringement) appears to contravene a statutory provision enacted since *Read* was decided. *See* 35 U.S.C. § 298 (failure to obtain the advice of counsel "may not be used to prove that the accused infringer willfully infringed the patent").

Worse, the district court's errors are not isolated. In the five years since *Halo Electronics*, district courts across the country have mechanically applied the *Read* factors to determine whether to award enhanced damages, without updating their analyses to reflect the Supreme Court's ruling. It is therefore critical that this Court take this opportunity to adopt a framework for deciding when enhanced damages are appropriate—and how much to award—that reflects *Halo Electronics*' holding. Without such guidance, district courts will continue to award enhanced damages without adequate or appropriate justification.

We suggest that the Court adopt a two-step framework that borrows from the process that courts now use to evaluate punitive-damages awards—because enhanced damages, like punitive damages, are supra-compensatory awards designed to target, and thereby punish and deter, particularly egregious conduct.

At step one, the district court should determine whether the defendant should be liable for enhanced damages at all. To impose such liability,

the district court must find that the defendant engaged in willful infringement that is particularly egregious—that is, behavior like that of a "pirate." *Halo Electronics*, 136 S. Ct. at 1932. The court's analysis should look at the case as a whole, with a focus on the infringer's subjective willfulness at the time of its culpable actions. While a handful of the *Read* factors *may* be relevant to this determination, district courts should not cabin themselves to those factors but should take into account any facts bearing on the ultimate question at hand: whether the willful infringement was so egregiously culpable that it merits enhanced damages under the *Halo Electronics* standard, which makes the infringer's subjective knowledge and intent paramount.

If step one is satisfied, the district court should proceed to step two, and determine the amount of enhanced damages to impose, bearing in mind that the amount of damages should reflect the egregiousness of the infringement but not punish conduct not before the court. The district court should justify the amount of the damages award by reference to guideposts similar to those provided by the Supreme Court in the analogous context of punitive damages, but adapted to fit the patent context and the *Halo Electronics*-framework. *Cf. State Farm Mut. Auto. Ins. v. Campbell*, 538 U.S. 408, 418 (2003). A passing reference to other cases or to the *Read* factors is an insufficient justification as a matter of law. *See Libas, Ltd. v. United States*, 314

F.3d 1362, 1365 (Fed. Cir. 2003) (lower courts must provide adequate explanation of their decisions to allow for appellate review).

In the wake of *Halo Electronics*, district courts have proven unable to self-correct without further direction from this Court. By adopting the two-step framework just described, this Court will provide critical guidance and ensure that awards of enhanced damages are "based upon an application of law, rather than a decisionmaker's caprice," as the Supreme Court intended. *State Farm*, 538 U.S. at 418 (quotation marks omitted); *see also Halo Electronics*, 136 S. Ct. at 1931-32 (because "'[d]iscretion is not whim,'" decisions whether and in what amount to award enhanced damages must "'be guided by sound legal principles'") (citation omitted).

ARGUMENT

I. THE DISTRICT COURT'S MECHANICAL APPLICATION OF THE *READ* FACTORS VIOLATES THE PRINCIPLES SET FORTH IN *HALO ELECTRONICS*.

Congress granted district courts the authority to award enhanced damages "up to three times the amount" that is "adequate to compensate" a plaintiff for an infringer's actions. 35 U.S.C. § 284. The exercise of this discretion was formerly governed by the test this Court adopted in *In re Seagate Technology, LLC*, 497 F.3d 1360 (Fed. Cir. 2007), but the Supreme Court overturned that standard in *Halo Electronics, Inc. v. Pulse Electronics, Inc.*, 136 S. Ct. at 1935.

In so ruling, the Court made no mention of *Read Corp. v. Portec, Inc.*, 970 F.2d 816, a nearly thirty-year-old decision of this Court that outlined nine factors for district courts to use when determining whether to award enhanced damages. The Supreme Court made no mention of *Read* for good reason: many of its factors contravene the key principles adopted by *Halo Electronics*.

Despite that and despite *Halo Electronics*' criticism of "rigid" formulas, 136 S. Ct. at 1934, the district court here mechanically relied on the *Read* factors to award $1.1 billion in enhanced damages against Defendant. Its decision to do so was an abuse of discretion. *See Gensetix, Inc. v. Bd. of Regents of Univ. of Tex. Sys.*, 966 F.3d 1316, 1324 (Fed. Cir. 2020) (district court abuses its discretion when it misapplies the law).

A. Under *Halo Electronics*, Enhanced Damages Are Reserved For Egregious Cases of Willful Misconduct.

In *Halo Electronics*, the Supreme Court clarified the limits on a district court's discretion to award enhanced damages. It held that, because "'[d]iscretion is not whim,'" the district court's decision whether and in what amount to award such damages must "'be guided by sound legal principles.'" 136 S. Ct. at 1931-32 (quoting *Martin v. Franklin Capital Corp.,* 546 U.S. 132, 139 (2005)).

Those governing legal principles, the Court held, have been defined through "nearly two centuries" of patent litigation, which establish that

enhanced damages "are not to be meted out in a typical infringement case." *Halo Electronics*, 136 S. Ct. at 1932. Rather, they are "designed as a 'punitive' or 'vindictive' sanction for egregious infringement behavior." *Id*. In particular, "[t]he sort of conduct warranting enhanced damages has been variously described . . . as willful, wanton, malicious, bad-faith, deliberate, consciously wrongful, flagrant, or—indeed—characteristic of a pirate." *Id*.

The Supreme Court explained that to determine whether infringing conduct meets this exacting standard, district courts should focus on "[t]he subjective willfulness of a patent infringer," by evaluating the infringer's knowledge and intent. *Halo Electronics*, 136 S. Ct. at 1933. The infringer's "culpability" must be assessed based on the facts "at the time of the challenged conduct"—it is improper to "look to facts that the defendant neither knew nor had reason to know at the time he acted." *Id*.[2]

[2] Under current law, the preliminary question of whether a defendant engaged in willful infringement is entrusted to the factfinder in the first instance. *See Eko Brands, LLC v. Adrian Rivera Maynez Enters., Inc.*, 946 F.3d 1367, 1378 (Fed. Cir. 2020). Once that initial determination is made, "[t]he question of enhanced damages is addressed by the court," under the *Halo Electronics* standard. *Id*. If, however, the evidence is such that no reasonable factfinder could find that the defendant acted willfully, then the court should not submit the question of willfulness to the jury, but instead grant summary judgment on that issue to the defendant. *See John Bean Techs. Corp. v. Morris & Assocs., Inc.*, 988 F.3d 1334, 1339 (Fed. Cir. 2021).

That contrasts with the former *Seagate* test, which the *Halo Electronics* Court rejected because it required a "finding of objective recklessness" as a prerequisite to any award of enhanced damages. 136 S. Ct. at 1932. Such a requirement, the Court held, was inconsistent with the purpose of enhanced-damages awards, which is to target defendants like the "'wanton and malicious pirate[s]' who intentionally infringe[] 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*.

In addition, because enhanced damages are reserved for the most egregious conduct, knowing infringement, standing alone, is insufficient to satisfy the *Halo Electronics* standard. The touchstone identified by the Court—"subjective willfulness"—makes clear that intentional wrongdoing is required, as does the Court's explanation that what is required to satisfy that standard is conduct that is "willful, wanton, malicious, bad-faith, deliberate, consciously wrongful, flagrant, or—indeed—characteristic of a pirate." *Halo Electronics*, 136 S. Ct. at 1932. Justice Breyer further explained, in his concurring opinion joined by Justices Kennedy and Alito, that "the 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*." *Halo Electronics*, 136 S. Ct. at 1936 (Breyer, J., concurring). Rather, what is required are "'circumstanc[es]' that transform[] simple knowledge into . . . egregious behavior."

Id. It is the egregiousness that "makes all the difference" because it is the essential prerequisite needed to justify enhanced damages. *Id.*

Further, even after a finding of "egregious misconduct," an enhanced-damages award should *not* be automatic. *Halo Electronics*, 136 S. Ct. at 1933. The Supreme Court rejected such an "unduly rigid" approach. *Id.* at 1932; *see also id.* at 1934 ("we eschew any rigid formula for awarding enhanced damages under § 284"). Instead, district courts should "take into account the particular circumstances of each case," looking at the case as a whole to determine whether the heavy sanction of enhanced damages is warranted. *Id.* at 1933.

B. Mechanical Application Of The *Read* Factors Is Impermissible Under *Halo Electronics.*

This Court's 1992 decision in *Read Corp. v. Portec, Inc.*, 970 F.2d at 827, identified nine factors for district courts to consider in deciding whether to make an enhanced-damages award:

1. whether the infringer engaged in deliberate copying;
2. whether the infringer, when it knew of the patent, investigated the scope of the patent and formed a good faith belief that the patent was invalid or that it was not infringed;
3. the infringer's behavior during litigation;
4. the infringer's size and financial condition;
5. the "closeness of the case";
6. the duration of the infringer's misconduct;
7. any remedial action taken by the infringer;
8. the infringer's motivation for harm; and
9. whether the infringer "attempted to conceal its misconduct."

Id. at 826-27.

Without ever mentioning *Halo Electronics*' core holding—that the enhanced-damages inquiry should focus on an infringer's subjective intent in order to ensure that enhanced damages are assessed only against those with the "characteristic[s] of a pirate," 136 S. Ct. at 1932—the district court here checked off the *Read* factors one by one in a cursory fashion and concluded that they "weigh[ed] in favor of enhanced damages." Appx195-203. The court then announced the amount of enhanced damages—$1.1 billion, or 1.5 times the compensatory-damages award—without providing any additional analysis other than an observation that plaintiff Centripetal had not been wholly successful in its claims because Cisco had prevailed with respect to one of the patents at issue. Appx204.

The approach taken by the district court here is not at all unusual. Even though *Halo Electronics* changed the calculus for awarding enhanced damages under 35 U.S.C. § 284, district courts across the country have continued to rely on the nine factors described by this Court. *See* Veena Tripathi, "*Halo* From The Other Side: An Empirical Study Of District Court Findings Of Willful Infringement And Enhanced Damages Post-*Halo*," 103 Minn. L. Rev. 2617, 2632-34 (2019) (analyzing post-*Halo Electronics* district

court decisions relying on the *Read* factors). And these courts are awarding large sums of money as enhanced damages.[3]

But the Supreme Court never endorsed those factors, as this Court has recognized. *See Presidio Components, Inc. v. Am. Tech. Ceramics Corp.*, 875 F.3d 1369, 1382 (Fed. Cir. 2017) ("When the Supreme Court articulated the current controlling test for decisions to award enhanced damages, it did not require the *Read* factors as part of the analysis."). And examination of the *Read* approach demonstrates that it is starkly inconsistent with *Halo Electronics*.

To begin with, several *Read* factors (factor three, the defendant's litigation behavior; factor four, the defendant's size and financial condition; factor five, the closeness of the case; and factor six, the duration of the infringement) either are impermissible under *Halo Electronics* or must be re-

[3] *See, e.g.*, *Alfred E. Mann Found. for Scientific Research v. Cochlear Corp.*, 2018 WL 6190604, at *37 (C.D. Cal. Nov. 4, 2018) (doubling more than $130 million verdict based on the *Read* factors); *Crane Sec. Techs., Inc. v. Rolling Optics AB*, 337 F. Supp. 3d 48, 57-60 (D. Mass. 2018) (awarding treble damages based on the *Read* factors); *Stryker Corp. v. Zimmer, Inc.*, 2017 WL 4286412, at *6 (W.D. Mich. July 12, 2017) (trebling $76 million award based on *Read* factors); *Arctic Cat Inc. v. Bombardier Recreational Prods., Inc.*, 198 F. Supp. 3d 1343, 1354 (S.D. Fla. 2016) (awarding treble damages based on the *Read* factors for a total of $46.6 million).

calibrated in order to focus the court on the only relevant inquiry—the infringer's subjective willfulness at the time of the alleged infringement. Still another *Read* factor (factor two, the defendant's investigation into the validity of the alleged infringement) contradicts 35 U.S.C. § 298, which was enacted after *Read* was decided.

Even more important, mechanically applying any set of factors—whether based upon *Read* or some other precedent—as the district court did here, is directly contrary to *Halo Electronics*' instruction that "rigid" formulas are to be "eschew[ed]." 136 S. Ct. at 1934.

1. Multiple *Read* factors are inconsistent with *Halo Electronics.*

Five out of the nine *Read* factors fail to appropriately focus a district court's inquiry on whether an infringer's alleged conduct "rose to the level of wanton, malicious, and bad-faith behavior required for willful infringement." *SRI Int'l, Inc. v. Cisco Sys., Inc.*, 930 F.3d 1295, 1309 (Fed. Cir. 2019), *cert. denied,* 140 S. Ct. 1108 (2020). *Halo Electronics* therefore requires that lower courts' use of these factors should be prohibited or realigned to focus on the inquiry mandated by that decision.

Factor two. The second *Read* factor instructs district courts to evaluate "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." *Read*, 970 F.2d at 827. Some district courts have interpreted this factor to mean that defendants may be penalized for failing to obtain the advice of counsel once becoming aware of the patent at issue. *See, e.g.*, *Milwaukee Elec. Tool Corp. v. Snap–On Inc.*, 288 F. Supp. 3d 872, 901 (E.D. Wis. 2017) ("Snap–On's failure to obtain the opinion of counsel . . . can be relevant to enhancement.").

But decades after this Court decided *Read*, Congress adopted 35 U.S.C. § 298, which provides that "[t]he failure of an infringer to obtain the advice of counsel with respect to any allegedly infringed patent . . . 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." Leahy-Smith America Invents Act, Pub. L. 112-29, § 17(a), 125 Stat. 284, 329 (2011). Because *Halo Electronics* makes clear that district courts may not award enhanced damages without first determining that the infringer's conduct was not only willful, but egregiously so, it necessarily follows that § 298 bars district courts from in any way considering—in connection with the decision whether to award enhanced damages—an infringer's failure to obtain the advice of counsel.

Importantly, however, § 298 does not prohibit courts from considering evidence that the defendant *did* obtain the advice of counsel, and that counsel advised that the defendant's conduct did not infringe a valid patent, to show that the defendant lacked the requisite state of mind for an enhanced-

damages award. *See Omega Patents, LLC v. CalAmp Corp.*, 920 F.3d 1337, 1353 (Fed. Cir. 2019) ("[A]n accused infringer's reliance on an opinion of counsel regarding noninfringement or invalidity of the asserted patent remains relevant to the infringer's state of mind post-*Halo*."); *Acantha LLC v. DePuy Synthes Sales, Inc.*, 406 F. Supp. 3d 742, 758-59 (E.D. Wis. 2019).

Read's second factor therefore must be reformulated to (1) reflect the restrictions of § 298 by prohibiting district courts from drawing any negative inference about an infringer's state of mind based upon its failure to obtain the advice of counsel; and (2) focus district courts on the infringer's subjective intent at the time of the alleged infringement, as *Halo Electronics* requires.

Factor Three. This factor directs district courts to evaluate an infringer's litigation conduct. 970 F.2d at 827. Any consideration of litigation conduct is squarely precluded by *Halo Electronics*.

By instructing district courts that they must justify any enhanced-damages award based on an infringer's state of mind *at the time of the infringement*, *Halo Electronics* places litigation conduct outside the permissible inquiry—because litigation has nothing to do with the egregiousness of the alleged infringement. 136 S. Ct. at 1932 (enhanced damages are reserved for "egregious *infringement* behavior") (emphasis added).

Consideration of litigation misconduct is impermissible for another, independent reason.

This Court explained in a pre-*Halo Electronics* decision that *Read*'s third factor is meant to reward patentees when infringers engage in litigation-related misconduct. *See i4i Ltd. P'ship v. Microsoft Corp.*, 598 F.3d 831, 859 (Fed. Cir. 2010) (defining "litigation misconduct" as "bringing vexatious or unjustified suits, discovery abuses, failure to obey orders of the court, or acts that unnecessarily prolong litigation").

But as Justice Breyer explained in his concurring opinion for himself and two other Members of the Court in *Halo Electronics*, awards of attorneys' fees under 35 U.S.C. § 285 are specifically designed to address such behavior. 136 S. Ct. at 1937 (Breyer, J., concurring) ("enhanced damages may not serve to compensate patentees for . . . litigation expenses" (quotation marks omitted)); *see Octane Fitness, LLC v. ICON Health & Fitness, Inc.,* 572 U.S. 545, 554 (2014) (attorneys' fees may be awarded under § 285 because of "the unreasonable manner in which the case was litigated"). *Read*'s third factor therefore would introduce into the enhanced-damages inquiry a consideration that Congress specifically addressed in a separate section of the statute—as well as improperly permit double recovery for such conduct. District courts therefore may not consider litigation conduct in the enhanced-damages inquiry.

Factor Four. *Read*'s fourth factor evaluates the infringer's size and financial condition. 970 F.2d at 827. Consideration of this factor is also

impermissible under *Halo Electronics*. An infringer's size and financial condition has nothing to do with its subjective knowledge and intent or with the egregiousness of its behavior—which are the issues relevant to determining whether the defendant engaged in conduct that was "characteristic of a pirate." *Halo Electronics*, 136 S. Ct. at 1932.

To the extent that district courts use this factor to justify the amount of enhanced damages, and not whether such damages are proper at all, this Court has already recognized that "[t]he amount of enhancement must bear some relationship to the level of culpability of the [infringer's] conduct." *Graco, Inc. v. Binks Mfg. Co.*, 60 F.3d 785, 794 n.4 (Fed. Cir. 1995). A defendant's conduct does not become more egregious depending upon its ability to pay. *Cf. State Farm Mut.*, 538 U.S. at 427 ("referenc[ing] [the defendant's] assets . . . ha[s] little to do with the actual harm sustained by the [plaintiffs]"). Therefore this factor, too, is off-limits from the enhanced-damages inquiry.

Factor Five. The fifth *Read* factor requires district courts to evaluate the "closeness of the case." 970 F.2d at 827. But the closeness of the arguments made in litigating the infringement action is not necessarily probative of the defendant's state of mind at the time of the infringement.

Here, for example, the district court—in its analysis of this factor—criticized Cisco for its "animations," which were prepared "ex post facto for

trial," because the court determined that they conflicted with Cisco's technical documents and some of its witnesses. Appx202. The court also found Cisco's defenses conflicting. Appx202. Later, after completing its review of the *Read* factors, the court again—inexplicably—returned to the question of whether Cisco "advance[d] any objectively reasonable defenses at trial." Appx203-204. And the court again criticized Cisco for its "contradict[ing]" defenses, adding that its damages evidence was "unrealistic." Appx203-204.

None of that is relevant to whether Cisco knew at the time that it was infringing Centripetal's patents and, if so, whether that infringement was so egregiously culpable that it merited enhanced damages. Instead, the district court's analysis boiled down to a critique of the choices made by Cisco's trial counsel.

That is impermissible under *Halo Electronics*. Indeed, the Supreme Court—in rejecting Seagate's "objective reasonableness" requirement—specifically determined that the "ability of the infringer to muster a reasonable (even though unsuccessful) defense at the infringement trial" was not necessarily relevant to the enhanced-damages inquiry. *Halo Electronics*, 136 S. Ct. at 1933.

To be sure, the availability of reasonable defenses *could* be relevant—but only if the infringer believed it had such defenses when it was engaging

in the alleged infringing conduct. The reasonableness of trial defenses by itself is not automatically a permissible consideration in every case.[4]

Factor Six. The sixth *Read* factor addresses the "[d]uration of [the] defendant's misconduct." 970 F.2d at 827. But, again, this factor shifts the district court's inquiry away from the defendant's subjective willfulness at the time of the infringement, as the opinion below demonstrates. The district court merely noted how long Cisco's alleged infringement had lasted, and cited case law asserting that enhanced damages are warranted if infringement continues after a plaintiff has filed suit, as happened here. Appx202-203 (citing *Acantha*, 406 F. Supp. 3d at 761).

But the duration of infringing conduct, standing alone, does not demonstrate a defendant's subjective intent to infringe, let alone the egregiousness of the defendant's conduct. *Halo Electronics* permits a district court to consider only the time period for which the defendant engaged in

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[4] It is true that this Court has stated that even "[a]fter *Halo*, the objective reasonableness of the accused infringer's positions can still be relevant for the district court to consider when exercising its discretion" to award enhanced damages. *WesternGeco L.L.C. v. ION Geophysical Corp.*, 837 F.3d 1358, 1363 (Fed. Cir. 2016), *rev'd on other grounds*, 138 S. Ct. 2129 (2018). But that is so only to the extent that the objective reasonableness of an accused infringer's positions bears on either the infringer's state of mind at the time of the infringement or the egregiousness of its conduct. Here, the district court at no point explained how the choices of Cisco's trial counsel demonstrated that Cisco engaged in willful infringement or the culpability of Cisco's actions.

infringing conduct *with the egregious state of mind* that the Supreme Court specified. To the extent some or all of the infringement occurred when the defendant lacked that state of mind, the duration of infringement is wholly irrelevant to determining the egregiousness of the defendant's conduct.

2. Mechanical application of the *Read* factors contradicts *Halo Electronics*.

Not only is reliance on the majority of the *Read* factors inconsistent with *Halo Electronics*, but so is rigidly applying those—or any other—factors. *Halo Electronics* instructs that "there is 'no precise rule or formula'" and that district courts should "eschew any rigid formula for awarding enhanced damages." 136 S. Ct. at 1932, 1934 (citation omitted). Rather than relying on mechanical or mathematical approaches, district courts should broadly "take into account the particular circumstances of each case." *Id.* at 1933. This is because it is the "*circumstances*" of a case that transform "simple 'intentional or knowing' infringement into egregious, sanctionable behavior." *SRI Int'l*, 930 F.3d at 1308.

Despite these instructions, the district court marched through the *Read* factors one by one, as if checking boxes—and as if an award of enhanced damages was automatic the moment a check mark was placed beside a sufficient number of those "boxes." Unfortunately, that is the approach followed by many lower courts. *See* Tripathi, "*Halo* From The Other Side," 103 Minn. L. Rev. at 2646 ("Out of the cases surveyed, only one case

cited a non-*Read* factor when determining whether to award enhanced damages.").

District courts should not, and may not, award enhanced damages simply because a majority or super-majority of the *Read* factors—or of the subset of those factors permissible under *Halo Electronics*—are satisfied.

Indeed, the Supreme Court has made clear that enhanced damages do not have to "follow a finding of egregious misconduct." *Halo Electronics*, 136 S. Ct. at 1933. Even if many or all of the permissible factors point to egregiousness, the district court still must evaluate the case as a whole, including any relevant considerations not encompassed by the permissible *Read* factors, to determine whether the case before it is one of the rare actions in which the defendant acted like "a pirate" and therefore should pay enhanced damages. *Id*. at 1932.

II. THE COURT SHOULD ADOPT A *HALO ELECTRONICS*-COMPLIANT FRAMEWORK ANALOGOUS TO THAT USED TO DETERMINE PUNITIVE DAMAGES.

Five years after *Halo Electronics*, district courts are still relying on the *Read* factors to determine whether to award enhanced damages. But, as just explained, multiple *Read* factors fail to comply with *Halo Electronics*' teachings—and in addition a district court is not permitted to restrict its inquiry to those factors. As a result, district courts like the lower court here are awarding enhanced damages—more than $1 billion in this case—without proper justification for those awards.

Imposition of enhanced damages that would not be permissible under a *Halo Electronics*-compliant standard produces significant adverse consequences. As Justice Breyer explained in *Halo Electronics*, the "limitations" on enhanced-damages awards exist "for a reason." 136 S. Ct. at 1937 (Breyer, J., concurring). An increased risk of enhanced damages will inexorably force companies receiving a notice of claimed infringement prematurely to "settle, or even abandon any challenged activity" because of the risk of being required to pay gigantic sums. *Id.* But "[t]he more that businesses, laboratories, hospitals, and individuals adopt this approach, the more often a patent will reach beyond its lawful scope to discourage lawful activity, and the more often patent-related demands will frustrate, rather than 'promote,' the 'Progress of Science and useful Arts.'" *Id.* at 1937-38 (quoting U.S. Const., Art. I, § 8, cl. 8).

This means, as Justice Breyer explained, that "in the context of enhanced damages, there are patent-related risks on both sides of the equation"—which "argues, not for abandonment of enhanced damages, but for their careful application, to ensure that they only target cases of egregious misconduct." 136 S. Ct. at 1938 (Breyer, J., concurring); *see also id.* at 1937 ("Enhanced damages have a role to play" in stopping patent infringement—but the "role is limited.").

It is critical, therefore, that this Court provide guidance to district courts on properly implementing the *Halo Electronics* standard. We suggest

a two-step framework, similar to that widely used in connection with punitive-damage awards. *See, e.g.*, *Kaiser v. Johnson & Johnson*, 947 F.3d 996, 1020 (7th Cir. 2020); *Racher v. Westlake Nursing Home Ltd. P'ship*, 871 F.3d 1152, 1169 (10th Cir. 2017).

At the first step, the district court should determine whether the defendant should be subjected to enhanced damages because its infringing conduct was so egregious that it was equivalent to the conduct of a "wanton and malicious pirate." *Halo Electronics*, 136 S. Ct. at 1932-33. As *Halo Electronics* instructs, this analysis should look at the case as a whole, with a focus on the infringer's knowledge at the time of its culpable actions. *Id*. While certain *Read* factors *may* be relevant to this determination—subject to the caveats described in the previous section—a district court should not limit its inquiry to those factors if there are other circumstances relevant to the *Halo Electronics* inquiry. The court should instead remain focused on the ultimate inquiry: measuring the egregiousness of the infringement in light of the infringer's state of mind at the time of the infringement.

The following questions may be useful to this determination, depending on the facts of the case:

- Consistent with *Read* factor one, whether the infringer engaged in deliberate copying, as opposed to merely being aware that the patent or patentee's product existed. In the experience of

HTIA's members, copying is often alleged but at trial plaintiffs often can show little more than that someone at the defendant company (often a low-level employee) was generally aware of the plaintiff's product. That is insufficient to show that the defendant took steps to deliberately copy the plaintiff's technology because mere knowledge of a product's existence, in and of itself, fails to demonstrate the intent to copy that product.

- Consistent with a modified *Read* factor two, whether the infringer had a subjective belief that it was not engaging in infringing conduct, based upon an internal investigation or the advice of counsel—to the extent that the defendant has elected to make an advice-of-counsel defense. District courts may not, however, penalize defendants or otherwise make assumptions about their state of mind based upon a defendant's failure to obtain the advice of counsel. Nor may courts penalize defendants for refusing to waive the attorney-client privilege when such advice was sought. In the experience of HTIA's members, obtaining an opinion-of-counsel letter clearly demonstrating that no infringement has occurred is often prohibitively difficult due to the complexities of the legal theories at issue, leading many—

on the advice of counsel—to decline to waive privilege regarding such analyses.

- Consistent with a modified *Read* factor five, whether at the time of the infringing conduct, the infringer had a subjective belief that the case was "close" and that it had meritorious defenses.
- Consistent with a modified *Read* factor six, whether the defendant engaged in the requisite wanton infringement for a significant period of time.
- Consistent with *Read* factor seven, whether, once receiving notification and explanation of the infringing conduct and having a subjective belief that such notice had merit, the infringer took remedial action. Evaluating the sufficiency of the notice is especially important when assessing whether the defendant took appropriate remedial action. In the vast majority of lawsuits filed against HTIA's members, the member never received a notice, let alone one that sufficiently explained the alleged infringement, so as to allow the member to take corrective action before suit was filed.

- Consistent with *Read* factor eight, whether the infringer was motivated to do harm via infringement (as opposed to legitimate business competition).
- Consistent with *Read* factor nine, whether the infringer attempted to conceal its infringing conduct.
- Whether the plaintiff had provided adequate notice of the alleged infringement to defendant. For instance, district courts should not find that defendants willfully infringed a patent when plaintiffs provided a notice of infringement that omitted pertinent information necessary for identifying the product or analyzing plaintiffs' claims, as often happens to HTIA members.
- Whether plaintiffs have engaged in bad acts themselves by, for instance, waiting an unreasonable amount of time to obtain their patents in order to trap industry players with infringement claims. Such conduct by a plaintiff would weigh heavily against a finding of egregious misconduct by demonstrating that the plaintiff's actions were responsible for leading the defendant into the alleged infringement

If, after evaluating these factors and any other circumstances brought to the court's attention by the parties that bear on the defendant's subjective

motivation, the district court finds that the infringing conduct was highly culpable, such that it merits enhanced damages, the court would then advance to the second step of the analysis.

At step two, the district court would determine the amount of enhanced damages to award. Again, the "particular circumstances of each case" should guide the district court's decision regarding the amount of such damages, *Halo Electronics*, 136 S. Ct. at 1933, which "must bear some relationship to the level of culpability of the [infringer's] conduct," *Graco*, 60 F.3d at 794 n.4. And similar to punitive damages, the amount of enhanced damages should reflect only that amount necessary to punish or deter the specific conduct before the court; the district court may not use the case as a vehicle to punish a defendant for conduct not at issue between the parties. *See State Farm*, 538 U.S. at 410.

To ensure that district courts award an appropriate amount, tailored to the specific facts of the case, district courts must justify the amount of enhanced damages that they award by reference to the level of egregiousness of the infringer's conduct—and by comparison to other awards of enhanced damages, and the conduct underlying those awards, in decisions properly applying the *Halo Electronics* standard. Such an explanation is necessary so that this Court can properly evaluate whether the district court abused its discretion. *See, e.g.*, *Libas*, 314 F.3d at 1365; *see also EagleView Techs., Inc. v. Xactware Solutions, Inc.*, 2021 WL 568045, at *8 (Feb.

16, 2021) (trebling a $125 million verdict with scant explanation other than a reference to the *Read* factors).

The sparse analysis in the opinion below makes clear why this Court should impose such a requirement. After mechanically walking through the *Read* factors and finding that they favored liability for enhanced damages, the district court awarded Centripetal $1.1 billion in enhanced damages. The court did not, however, explain why that amount was appropriate, stating only (without citation), that "[i]n considering the cases awarding enhanced damages, and comparing these cases to this case, the Court FINDS that enhancing the damages by a factor of 2.5 is appropriate." Appx204. The lower court did not even identify those other "cases awarding enhanced damages," let alone explain the relative egregiousness of the conduct in those cases compared to the proof in this case. The complete opacity of the district court's reasoning makes it impossible for this Court to evaluate the district court's exercise of its discretion. Just as a government fine of $1 billion would not be upheld in such circumstances, an enhanced-damages award must be justified by sufficient reasoning to confirm its fairness and rationality.

In the analogous context of punitive damages, the Supreme Court has provided guideposts for determining whether a punitive-damages award is

excessive. This Court should adopt similar guideposts for enhanced damages, modified to reflect the *Halo Electronics* standard, to ensure that district courts exercise their discretion properly, based on permissible considerations, as well as to promote consistency in awards among the district courts. Thus, when determining the appropriate amount of enhanced damages, a district court should consider (1) the reprehensibility of the defendant's misconduct, with a particular focus on the defendant's state of mind at the time of the infringement; (2) the actual harm to the plaintiff; and (3) the enhanced-damages awards made in other cases in which courts have properly applied the *Halo Electronics* framework. *See State Farm*, 538 U.S. at 418. The maximum award of treble damages should be reserved for especially egregious conduct. And the factors applied in determining whether an enhanced-damages award is permissible (*see* pages 25-28, *supra*) are likely to be relevant when evaluating the reprehensibility of the infringing conduct—the first guidepost—because they direct courts to evaluate the egregiousness of an infringer's actions. By using these modified guideposts to justify the size of enhanced-damages awards, district courts will ensure that the amount awarded is "based upon an application of law, rather than

a decisionmaker's caprice." *State Farm*, 538 U.S. at 418. (quotation marks omitted).[5]

* * *

Halo Electronics significantly altered the standard for enhanced-damages awards. But five years after that sea change, district courts are still relying on outdated factors from a decision that pre-dated *Halo Electronics* by nearly twenty-five years. The adverse effects upon innovation from erroneous awards of enhanced damages are too great, and the amounts of money at issue too large, for district courts to continue assessing claims involving huge amounts of money without this Court's guidance. The Court therefore should explain how district courts should decide whether an infringer has engaged in conduct that is so egregious that it may rightfully be called "willful, wanton, malicious, bad-faith, deliberate, consciously wrongful, flagrant, or—indeed—characteristic of a pirate," 136 S. Ct. at 1932, and, if such conduct is found, how district courts should determine the amount of enhanced damages to award.

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[5] Courts should not use a defendant's size or wealth to determine the amount needed to punish or deter infringement. Because infringement is an economically motivated harm, the amount needed to deter such conduct is directly related to the amount that infringers profit from the infringement, regardless of their size or overall wealth. *See Zazú Designs v. L'Oréal, S.A.*, 979 F.2d 499, 508-09 (7th Cir. 1992); *see also State Farm*, 538 U.S. at 427-28 ("The wealth of a defendant cannot justify an otherwise unconstitutional punitive damages award.").

CONCLUSION

The judgment of the district court should be reversed and, in the event the Court upholds the findings of infringement, remanded with instructions for further proceedings consistent with *Halo Electronics*.

Respectfully submitted,

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CERTIFICATE OF COMPLIANCE

Pursuant to Federal Rule of Appellate Procedure 32(a)(7)(C), the undersigned counsel for Appellant certifies that this brief:

(i) complies with the type-volume limitation of Federal Rule of Appellate Procedure 29(a)(5) and Federal Circuit Rules 29(b) and 32(b) because it contains 6,997 words, including footnotes and excluding the parts of the brief exempted by Federal Circuit Rule 32(b) and Federal Rule of Appellate Procedure 32(f); and

(ii) complies with the typeface and style requirements of Federal Rules of Appellate Procedure 32(a)(5) and 32(a)(6) because this document has been prepared using Microsoft Office Word 2016 and is set in Century Schoolbook font in a size equivalent to 14 points or larger.

Dated: September 3, 2021 /s/ *Andrew J. Pincus*