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Enhanced Damages for Infringement of Standard-Essential Patents

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Section 284 of the Patent Act provides in part that, upon a finding of patent infringement, the court "may increase the damages up to three times the amount found or assessed."[1] In its 2016 decision in *Halo Electronics, Inc. v. Pulse Electronics, Inc.*, the Supreme Court said that enhanced damages "are not to be meted out in a typical infringement case."[2] Such "a 'punitive' or 'vindictive' sanction" should be limited to cases involving "egregious infringement behavior."[3] At the same time, the Court said that enhanced damages might be appropriate even if the infringement defense presented was objectively reasonable[4]—a factor that would have foreclosed the enhancement of damages under the Federal Circuit's *Seagate* test.[5]

Some accused infringers have urged the lower courts not to read *Halo* to permit enhanced damages for infringement of standard-essential patents (SEPs).[6] For example, in *Core Wireless Licensing S.A.R.L. v. LG Electronics, Inc.*, the accused infringer, LG, argued to Chief Judge Rodney Gilstrap of the Eastern District of Texas that, notwithstanding *Halo*, enhanced damages are inappropriate for SEPs because "infringement is an expected part of the standard setting model."[7] LG said that a commitment to license one's SEPs on fair, reasonable, and nondiscriminatory (FRAND) terms "restrict[s] the remedies available to holders of standard-essential patents," such that

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1 35 U.S.C. § 284.

2 136 S. Ct. 1923, 1932 (2016).

3 *Id.*

4 *Id.*

5 *In re* Seagate Tech., LLC, 497 F.3d 1360, 1371 (Fed. Cir. 2007).

6 *See, e.g.*, Core Wireless Licensing S.A.R.L. v. LG Elecs., Inc., No. 2:14-cv-911, 2016 WL 4596118, at *2 (E.D. Tex. Sept. 3, 2016) (Gilstrap, C.J.).

7 *Id.*

"enhanced damages should be restricted as well."[8] LG further argued that all parties expect a standards implementer to use SEPs "*without* first seeking out and engaging in licensing negotiations with every [SEP holder]."[9] LG said that "[a]ny alleged infringement in this setting is not 'culpable and egregious'; it is conduct . . . [that] could not merit punitive damages."[10]

In September 2016, Chief Judge Gilstrap rejected LG's motion for summary judgment of no willful infringement.[11] He said that if, as LG had alleged, the asserted patents were not actually essential to practice a standard, "the willfulness analysis in the instant case does not differ from that of a typical patent case."[12] In addition, he said that, even if the patents in suit were actually essential to the standard, LG had not cited any authoritative precedent to support its argument that the court may not enhance the damages awarded to the SEP holder.[13] Chief Judge Gilstrap refused "to create a bright line rule forbidding enhanced damages merely because the asserted patents are standard-essential."[14] Ultimately, the jury found that LG's infringement was indeed willful, and, in November 2016, Chief Judge Gilstrap enhanced the damages award by 20 percent.[15]

The Federal Circuit will eventually face the question of whether enhanced damages are available for the infringement of SEPs. This article provides a framework for answering that question. I explain that no valid justification exists for categorically foreclosing the enhancement of damages for the infringement of FRAND-committed SEPs. When the SEP holder has offered to license its SEPs on FRAND terms, contract law—rather than patent law—governs the relationship between the SEP holder and the infringer. Under the contractual terms of a FRAND commitment, the SEP holder's compensation for the infringer's use of the SEPs cannot exceed a FRAND royalty. However, that contractual constraint ends if the implementer exhausts its rights as a third-party beneficiary of the FRAND contract. At that point, the SEP holder's FRAND commitment is moot, and the relationship between the SEP holder and the infringer returns to the domain of statutory remedies contained in the Patent Act. The SEP holder then may seek the enhancement of the damages award for egregious infringement, pursuant to section 284.

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[8] Defendant's Motion for Summary Judgment of No Willful Infringement at 6, Core Wireless Licensing, S.A.R.L. v. LG Elecs., Inc., No. 2:14-cv-911, 2016 WL 4596118 (E.D. Tex. Sept. 3, 2016), 2016 WL 4492628.

[9] *Id.* at 9 (emphasis in original).

[10] *Id.*

[11] *Core Wireless Licensing*, 2016 WL 4596118, at *2.

[12] *Id.*

[13] *Id.*

[14] *Id.*

[15] Final Judgment, Core Wireless Licensing, S.A.R.L. v. LG Elecs., Inc., No. 2:14-cv-912 (E.D. Tex. Nov. 1, 2016), ECF No. 47.

In Part I of this article, I examine the principles that guide the enhancement of patent damages after *Halo*. In Part II, I examine whether a FRAND commitment categorically forecloses the enhancement of damages for the infringement of SEPs. In Part III, I explain the culpability standard that courts use to determine whether punitive damages are warranted. In Part IV, I analyze several indicia of egregious infringement of SEPs that support the enhancement of the damages award.

I. Enhanced Damages After *Halo*

The Federal Circuit's *Seagate* decision in 2007 read section 284 to require the patent owner to prove, by clear and convincing evidence, that (1) "the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent" and (2) the risk of infringement "was either known or so obvious that it should have been known to the accused infringer."[16] The first prong (called the "objective recklessness" test) examined, as a matter of law, the objective reasonableness of the infringer's invalidity or noninfringement defense. The second prong (called the "subjective willfulness" test) analyzed, as a question of fact, the infringer's state of mind.[17] Under *Seagate*, the patent holder's failure to show that the infringement defense was objectively unreasonable as a matter of law would moot factual examination of the infringer's subjective willfulness and consequently foreclose the court's enhancement of damages.[18]

Halo consolidated two separate appeals of patent-infringement verdicts in which the court had denied the patent holder enhanced damages.[19] The Supreme Court granted *certiorari* to decide whether *Seagate*'s test for enhanced damages contradicted section 284 of the Patent Act.[20] On the merits, the Court found that *Seagate* did.[21]

A. Overruling Seagate

In *Halo*, the Court found the *Seagate* test "unduly rigid" and incompatible with section 284 because it "impermissibly encumber[ed] the statutory grant of discretion to district courts."[22] The Court said that "the 'word "may" [in section 284] clearly connotes discretion.'"[23] It observed that the statute

16 *In re* Seagate Tech., LLC, 497 F.3d 1360, 1371 (Fed. Cir. 2007).

17 *See, e.g.*, Global Traffic Techs. LLC v. Morgan, 620 F. App'x 895, 904 (Fed. Cir. 2015); Bard Peripheral Vascular, Inc. v. W.L. Gore & Assocs., Inc. (*Bard II*), 776 F.3d 837, 841 (Fed. Cir. 2015); Bard Peripheral Vascular, Inc. v. W.L. Gore & Assocs., Inc. (*Bard I*), 682 F.3d 1003, 1006–07 (Fed. Cir. 2012).

18 *See, e.g.*, *Bard II*, 776 F.3d at 844 (quoting *Seagate*, 497 F.3d at 1371).

19 *Halo*, 136 S. Ct. at 1931.

20 *Id.* at 1928.

21 *Id.* at 1932.

22 *Id.* (quoting Octane Fitness, LLC v. ICON Health & Fitness, Inc., 134 S. Ct. 1749, 1755 (2014)).

23 *Id.* at 1931 (quoting Martin v. Franklin Capital Corp., 546 U.S. 132, 136 (2005)).

"contains no explicit limit or condition" on that discretion.[24] Over the course of 180 years, however, the "channel of discretion ha[d] narrowed"[25] to limit enhanced damages to "egregious cases of culpable behavior."[26] The Court acknowledged that *Seagate* reflected "a sound recognition" of the narrow role of enhanced damages as a punishment for egregious acts of infringement.[27] However, *Seagate* was deficient because it "exclude[d] from discretionary punishment many of the most culpable offenders" that enhanced patent damages intend to punish.[28]

To the Court, "the principal problem with *Seagate*" was its requirement that the patent holder prove the accused infringer's objective recklessness in every case.[29] The Court posed the example of one "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."[30] The Court then noted that, "[u]nder *Seagate,* a district court may not even consider enhanced damages for such a pirate, unless the court first determines that his infringement was 'objectively' reckless."[31] This requirement in *Seagate* made "dispositive the ability of the infringer to muster a reasonable . . . defense at the infringement trial, . . . even if he did not act on the basis of the defense or was even aware of it."[32] The Court emphasized, however, that "[t]he subjective willfulness of a patent infringer, intentional or knowing, may warrant enhanced damages, without regard to whether his infringement was objectively reckless."[33] Consequently, *Seagate* impermissibly constrained a district court's statutory discretion to award enhanced damages.[34]

The Court also overruled *Seagate*'s evidentiary burden requiring clear and convincing evidence. First, it noted that section 284 does not impose a higher evidentiary burden than a preponderance of the evidence because Congress "expressly erected a higher standard of proof elsewhere in the Patent Act, . . . but not in § 284."[35] Second, relying on its 2014 decision in *Octane Fitness*, the Court said that "'patent-infringement litigation has always been governed by a preponderance of the evidence standard,'" and that section 284 "'imposes no specific evidentiary burden, much less such a high one.'"[36] Thus, the

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24 *Id.*
25 *Id.* at 1932 (quoting Henry J. Friendly, *Indiscretion About Discretion*, 31 Emory L.J. 747, 772 (1982)).
26 *Id.*
27 *Id.*
28 *Id.*
29 *Id.*
30 *Id.*
31 *Id.*
32 *Id.* at 1933.
33 *Id.*
34 *Id.* at 1932–33.
35 *Id.* at 1934.
36 *Id.* (quoting Octane Fitness, LLC v. ICON Health & Fitness Inc., 134 S. Ct. 1749, 1758 (2014)).

patent holder needs to prove only by a preponderance of the evidence that the infringer's actions were egregious.

B. Egregious Infringement

Despite overruling *Seagate*, *Halo* did not alter the principle that a finding of egregious infringement empowers but does not mandate a court's enhancement of damages.[37] If the finder of fact concludes that the infringement is egregious, the court then exercises its discretion to decide the extent to which it will enhance damages, if at all,[38] using the nine factors that the Federal Circuit announced in 1992 in *Read Corp. v. Portec, Inc.*:

> (1) whether the infringer deliberately copied the ideas or design of another; (2) whether the infringer, when he knew of the other's patent protection, investigated the scope of the patent and formed a good-faith belief that it was invalid or that it was not infringed; . . . (3) the infringer's behavior as a party to the litigation[;] . . . (4) [the] [d]efendant's size and financial condition[;] (5) [the] [c]loseness of the case[;] (6) [the] [d]uration of defendant's misconduct[;] (7) [the] [r]emedial action by the defendant[;] (8) [the] [d]efendant's motivation for harm[;] [and] (9) [w]hether defendant attempted to conceal its misconduct.[39]

The Federal Circuit has nonetheless said that, when the finder of fact finds the infringement to be egregious, the court "should provide reasons for *not* increasing a damages award."[40] The court's failure to do so would constitute an abuse of discretion.[41]

II. Does a FRAND Commitment Foreclose the Enhancement of Damages?

When the SEP holder's commitment to license its SEPs on FRAND terms is an enforceable contract, and the infringer is the intended third-party

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[37] *Id.* at 1933 ("[N]one of this is to say that enhanced damages must follow a finding of egregious misconduct. As 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.").

[38] *See, e.g.*, Arctic Cat Inc. v. Bombardier Recreational Prods., Inc., No. 14-cv-62369, 2016 WL 4249951, at *5–*6 (S.D. Fla. July 27, 2016); Radware, Ltd. v. F5 Networks, Inc., No. 5:13-cv-02024, 2016 WL 4427490, at *5 (N.D. Cal. Aug. 22, 2016); Enplas Display Device Corp. v. Seoul Semiconductor Co., No. 13-cv-05038, 2016 WL 4208236, at *7 (N.D. Cal. Aug. 10, 2016), *appeal docketed*, No. 16-2599 (Fed. Cir. Sept. 1, 2016).

[39] 970 F.2d 816, 827 (Fed. Cir. 1992) (citations omitted); *see also* i4i Ltd. v. Microsoft Corp., 598 F.3d 831, 859 (Fed. Cir. 2010) ("Although a finding of willfulness is a prerequisite for enhancing damages under § 284, the standard for deciding whether—and by how much—to enhance damages is set forth in *Read*, not *Seagate*."); Spectralytics, Inc. v. Cordis Corp., 649 F.3d 1336, 1348 (Fed. Cir. 2011).

[40] Jurgens v. CBK Ltd., 80 F.3d 1566, 1572 (Fed. Cir. 1996) (emphasis added); *see also* Whitserve, LLC v. Comput. Packages, Inc., 694 F.3d 13, 37 (Fed. Cir. 2012).

[41] *See, e.g.*, *Jurgens*, 80 F.3d at 1572.

beneficiary of that commitment, contract law governs the licensing relationship between the SEP holder and the infringer. The contractual obligations arising from the FRAND commitment limit, to the amount of a FRAND royalty, the compensation that the SEP holder may seek for the use of its SEPs. However, the obligations arising from a FRAND commitment have boundaries, and the infringer can exhaust its rights as a third-party beneficiary of the FRAND contract. When the infringer does so, the SEP holder's obligations arising from its FRAND commitment become moot. The SEP holder then may seek the remedies available under the Patent Act, including enhanced damages.

In determining whether the FRAND commitment constrains the damages award in a specific case, the court needs to determine whether the SEP holder has discharged its obligations arising from the FRAND commitment. A typical FRAND commitment obligates the SEP holder to offer to license its SEPs on FRAND terms.[42] To discharge that obligation, the SEP holder must extend an offer to license that is sufficiently certain, such that it gives the implementer the power to accept that offer and execute a license agreement.[43] In addition, to comply with its duty of good faith that is implicit in any contract, the SEP holder must make an offer that falls within the FRAND range.[44] An SEP holder that has sued the implementer for patent infringement *before* extending a FRAND offer has not discharged its FRAND obligation. Consequently, the SEP holder could not resort to the Patent Act and obtain more than a FRAND royalty for the infringer's use of the SEPs until after the SEP holder had cured its nonperformance by making a legitimately FRAND offer and the implementer then had rejected that offer, expressly or by operation of law.

In contrast, if the SEP holder has discharged its FRAND obligation, then the court should determine whether the infringer has exhausted its rights as a third-party beneficiary of the FRAND contract.[45] An infringer can extinguish its rights by rejecting a FRAND offer or by failing to accept

[42] *See, e.g.*, Microsoft Corp. v. Motorola, Inc., 696 F.3d 872, 884 (9th Cir. 2012); *In re* Innovatio IP Ventures, LLC Patent Litig., MDL No. 2303, 2013 WL 5593609, at *3–*4 (N.D. Ill. Oct. 3, 2013) (quoting *In re* Innovatio IP Ventures, LLC Patent Litig., MDL No. 2303, 956 F. Supp. 2d 925, 932–33 (N.D. Ill. 2013)); Microsoft Corp. v. Motorola, Inc., 854 F. Supp. 2d 993, 999 (W.D. Wash. 2012); Apple, Inc. v. Motorola Mobility, Inc., No. 11-cv-178, 2011 WL 7324582, at *10 (W.D. Wis. June 7, 2011); *see also* J. Gregory Sidak, *A FRAND Contract's Intended Third-Party Beneficiary*, 1 Criterion J. on Innovation 1001, 1005–07 (2016); J. Gregory Sidak, *The Meaning of FRAND, Part II: Injunctions*, 11 J. Competition L. & Econ. 201, 214–18 (2015); J. Gregory Sidak, *The Meaning of FRAND, Part I: Royalties*, 9 J. Competition L. & Econ. 931, 949–50 (2013).

[43] *See* Restatement (Second) of Contracts §§ 24, 33 (Am. Law Inst. 1981); Realtek Semiconductor Corp. v. LSI Corp., 946 F. Supp. 2d 998, 1007–08 (N.D. Cal. 2013).

[44] Sidak, *The Meaning of FRAND, Part II: Injunctions*, *supra* note 42, at 216–18. This view is my opinion, which demands more of the SEP holder than the limited case law on the subject. *See* Microsoft Corp. v. Motorola Inc., 864 F. Supp. 2d 1023, 1038 (W.D. Wash. 2012) ("[U]nder Motorola's agreements with the IEEE and the ITU, Motorola need not make initial offers on RAND terms.") (Robart, J.).

[45] *See* Sidak, *A FRAND Contract's Intended Third-Party Beneficiary*, *supra* note 42, at 1007–14.

a FRAND offer within a reasonable period of time.[46] When the infringer has extinguished its rights as a third-party beneficiary, the contractual constraints that the FRAND commitment imposes on the SEP holder no longer apply with respect to the infringer in question.[47] Instead, the relationship between the SEP holder and the infringer reverts to patent law, which entitles the SEP holder to "damages adequate to compensate for the infringement," subject to possible enhancement of "the damages up to three times."[48]

In sum, although a FRAND commitment contractually constrains the compensation that an SEP holder may obtain for the use of its SEPs, those contractual constraints become moot as soon as the infringer has exhausted its rights as a third-party beneficiary. After the infringer has exhausted its rights under the FRAND contract, the SEP holder may seek any remedy that section 284 offers, including an enhancement of the damages award.

III. What Is Egregious Infringement?

Halo reaffirmed that enhanced damages are not a typical punishment for patent infringement. Instead, they are a "punitive" or "vindictive" measure reserved for "egregious" behavior—an adjective that the Court used eight times in its thirteen-page opinion.[49] Yet, the Court did not define egregious infringement. It said only that egregious behavior includes conduct that has been described as "willful, wanton, malicious, bad-faith, deliberate, consciously wrongful, flagrant, or—indeed—characteristic of a pirate."[50] Tort law suggests what these descriptors might mean.

In tort law, punitive damages are appropriate only when the defendant's conduct reveals a heightened level of culpability.[51] Tort law distinguishes different types of culpable behavior, ranging from negligent to intentional, with reckless behavior falling between the two. An act is considered intentional when the tortfeasor knew that his action would inflict harm and acted with the intention of inflicting that harm.[52] In contrast, a reckless tortfeasor does not act with the intention of causing harm;[53] rather, he acts "'knowing or having reason to know of facts which would lead a reasonable man to realize, not only that his conduct creates an unreasonable risk of . . . harm to another, but also that such risk is substantially greater than that which is

46 *See id.* at 1007.
47 *See id.* at 1007–14.
48 35 U.S.C. § 284.
49 Halo Elecs., Inc. v. Pulse Elecs., Inc., 136 S. Ct. 1923, 1926, 1932–36, 1938 (2016).
50 *Id.* at 1932.
51 *See, e.g.*, Restatement (Second) of Torts § 908(2) (Am. Law Inst. 1979).
52 *See, e.g.*, Staub v. Proctor Hosp., 562 U.S. 411, 417 (2011) (quoting Kawaauhau v. Geiger, 523 U.S. 57, 61–62 (1998)); Restatement (Second) of Torts § 8A (Am. Law Inst. 1979).
53 *See, e.g.*, Exxon Shipping Co. v. Baker, 554 U.S. 471, 493 (2008) ("Reckless conduct is not intentional or malicious, nor is it necessarily callous toward the risk of harming others, as opposed to unheedful of it.").

necessary to make his conduct negligent.'"[54] In the case of reckless behavior, harm results from the defendant's deliberate decision to disregard a known, high risk of causing harm.[55] Under the *Restatement (Second) of Torts*, reckless behavior differs from negligent behavior, which consists of "mere inadvertence, incompetence, unskillfulness, or a failure to take precautions."[56]

The Supreme Court considers the award of punitive damages in tort cases to be appropriate only when the defendant's conduct was either intentional or reckless.[57] Courts have applied these same tort principles when deciding whether to enhance damages for patent infringement. The Supreme Court has long said that enhanced damages are appropriate only in cases involving willful or bad-faith infringement.[58] Although the Court did not mention reckless behavior explicitly in *Halo*, lower courts have interpreted willful and bad-faith infringement to include an infringer's reckless disregard for the patent holder's rights,[59] and the Court did emphasize in *Halo* that a court deciding whether to enhance a damages award should apply principles developed in "180 years" of federal patent jurisprudence.[60] It is therefore reasonable to interpret the "egregious infringement behavior" to which the Court referred in *Halo* as including not only intentional infringement, but also reckless infringement.

Similar principles apply to cases involving the infringement of FRAND-committed SEPs. Thus, after determining that the infringer exhausted its rights under the FRAND contract, the court may enhance the damages

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[54] Safeco Ins. Co. of Am. v. Burr, 551 U.S. 47, 69 (2007) (quoting Restatement (Second) of Torts § 500 (Am. Law Inst. 1965)); *see also* Restatement (Third) of Torts: Liability for Physical and Emotional Harm § 2 (Am. Law Inst. 2010) (defining a reckless person as one who "(a) . . . knows of the risk of harm created by the conduct or knows facts that make that risk obvious to anyone in the person's situation, and (b) the precaution that would eliminate or reduce that risk involves burdens that are so slight relative to the magnitude of the risk as to . . . demonstrat[e] . . . the person's indifference to the risk"); Restatement (Second) of Torts § 500 cmt. f (Am. Law Inst. 1965) ("While an act to be reckless must be intended by the actor, the actor does not intend to cause the harm which results from it. It is enough that he realizes or, from facts which he knows, should realize that there is a strong probability that harm may result, even though he hopes or even expects that his conduct will prove harmless."); *see also* J. Gregory Sidak, *Two Economic Rationales for Felony Murder*, 2016 Cornell L. Rev. Online 51, 54–55.

[55] *See, e.g.*, Voisine v. United States, 136 S. Ct. 2272, 2279 (2016); *see also* Brand Mktg. Grp. LLC. v. Intertek Testing Servs., N.A., Inc., 801 F.3d 347, 360 (3d Cir. 2015); Edwards v. Pepsico, Inc., 268 F. App'x 756, 761 (10th Cir. 2008) (internal citations omitted); Crow v. Montgomery, 403 F.3d 598, 604 (8th Cir. 2005).

[56] Restatement (Second) of Torts § 500 cmt. g (Am. Law Inst. 1965).

[57] *See, e.g.*, *Exxon*, 554 U.S. at 493 (quoting Restatement (Second) of Torts § 908(2) (Am. Law Inst. 1979)); *see also Safeco*, 551 U.S. at 57 (citations omitted) (quoting Prosser and Keeton on the Law of Torts § 34, at 212 (William Lloyd Prosser, W. Page Keeton, Dan B. Dobbs, Robert E. Keeton & David G. Owen eds., West 5th ed. 1984)).

[58] *See, e.g.*, Aro Mfg. Co. v. Convertible Top Replacement Co., 377 U.S. 476, 508 (1964).

[59] *See, e.g.*, Union Carbide Chems. v. Shell Oil Co., 425 F.3d 1366, 1380–81 (Fed. Cir. 2005); Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp., 383 F.3d 1337, 1342–43 (Fed. Cir. 2004); Atmel Corp. v. Silicon Storage Tech., Inc., 76 F. App'x 298, 314–15 (Fed. Cir. 2003); Virginia Panel Corp. v. MAC Panel Co., 133 F.3d 860, 867 (Fed. Cir. 1997); *see also* NobelBiz, Inc. v. Glob. Connect, L.L.C., No. 6:12-cv-244, slip op. at 43 (E.D. Tex. Oct. 27, 2016), ECF No. 401; Sharper Image Corp. v. Honeywell Int'l, Inc., 222 F.R.D. 621, 630 (N.D. Cal. 2004).

[60] Halo Elecs., Inc. v. Pulse Elecs., Inc., 136 S. Ct. 1923, 1932 (2016).

award if it finds that the infringement of the asserted SEPs was either intentional or reckless.

IV. Egregious Infringement of SEPs

To constitute egregious misconduct justifying a punitive sanction, an infringement of SEPs must manifest a level of culpability exceeding mere negligence. Evidence of the infringer's knowledge of the SEPs and of the infringer's conduct during negotiation can enable the court to distinguish negligent infringement from reckless (or intentional) infringement and thus to identify cases deserving enhanced damages. It bears emphasis that an infringer will typically have greater notice of the existence of an SEP than it will have of the existence of a patent that is not essential to a standard. In addition, because enhanced damages are available only after an SEP holder has discharged its FRAND obligation, the infringer will have already received a FRAND offer from the SEP holder when the court decides whether to enhance the damages award. Consequently, there exists a high likelihood that, after the infringer has exhausted its rights as a third-party beneficiary under the FRAND contract, the court will find the infringement of SEPs to be egregious.

A. The Infringer's Knowledge of the SEPs

The infringer's knowledge of the SEPs is fundamental to whether its infringement was negligent or egregious.[61] *Halo* forecloses enhanced damages when the infringer "appeared in truth to be ignorant of the existence of the patent right, and did not intend any infringement."[62] This requirement comports with the general definition of recklessness, which, as I explained in Part III, requires the defendant to know of the risk that its conduct will cause harm.

An infringer typically will have greater notice of the existence of SEPs than it will have of the existence of patents not essential to a standard. An SSO typically requires a patent holder to disclose a patented technology that the patent holder believes is (or is likely to become) essential to practicing the standard.[63] A public letter of assurance (LOA) executed by the firm claiming

[61] *See, e.g.*, WBIP, LLC v. Kohler Co., 829 F.3d 1317, 1341 (Fed. Cir. 2016); i4i Ltd. P'ship v. Microsoft Corp., 598 F.3d 831, 858 (Fed. Cir. 2010). The Federal Circuit has found the infringer's knowledge of the patent *application*, as opposed to the issued patent itself, sufficient to support a finding of willful infringement. National Presto Indus., Inc. v. W. Bend Co., 76 F.3d 1185, 1193 (Fed. Cir. 1996); *see also* Malibu Boats, LLC v. Mastercraft Boat Co., LLC, No. 3:16-CV-82, slip op. at 11 (E.D. Tenn. Oct. 28, 2016), ECF No. 43.

[62] *Halo*, 136 S. Ct. at 1929 (quoting Hogg v. Emerson, 52 U.S. 587, 607 (1850)); *see also WBIP*, 829 F.3d at 1341 (citing *Halo*, 136 S. Ct. at 1932–33) (saying that *Halo* did not alter the rule that "knowledge of the patent alleged to be willfully infringed continues to be a prerequisite to enhanced damages").

[63] *See, e.g.*, European Telecommunications Standards Institute [ETSI], ETSI Rules of Procedure, Annex 6: ETSI Intellectual Property Rights Policy § 4, at 35 (Apr. 20, 2016), http://www.etsi.org/images/files/ipr/etsi-ipr-policy.pdf [hereinafter ETSI IPR Policy]; Institute of Electrical & Electronics Engineers [IEEE],

the SEP memorializes that disclosure, and the SSO then typically publishes the letter.[64] Thus, to assess the infringer's knowledge of an asserted SEP, a court should consider whether the SEP holder had submitted an LOA identifying the specific patents. Furthermore, the infringer might learn of the SEP's existence through its own participation in the SSO. Some SSOs allow members and nonmembers to observe the formal standard-setting process, and, if an implementer has a representative voting member in the SSO, it might be able to participate directly in the selection and review of specific standard-essential technologies.[65] The likelihood that the infringer knew of a specific SEP increases with the degree to which the infringer participated in the standardization process.

In addition, as I explained in Part II, to discharge its duties arising from a FRAND commitment, the SEP holder typically needs to offer to license the infringed SEPs to implementers on FRAND terms. The infringer would learn of the asserted SEPs upon receiving the SEP holder's notice of infringement and offer of a license for the infringed SEPs. When notifying the infringer, the SEP holder might specify the standards that its SEPs cover and explain how the infringer's product infringes those SEPs. The more detailed the SEP holder's notification of how the infringer's product violates the SEP holder's patent rights, the greater that notification's weight as evidence that the infringer knew that the SEP existed. For example, in *Core Wireless*, Chief Judge Gilstrap found that "LG had detailed knowledge of the patents-in-suit long before the filing of [the] lawsuit" against it because "Core Wireless provided LG with claim charts that set forth detailed infringement contentions."[66] Surely, as is commonly the case in the licensing or cross licensing of portfolios of SEPs, if the infringer had previously executed a (now-expired) license for the same SEPs, that fact alone should conclusively prove that the infringer knew of the asserted SEPs.

In sum, the SEP holder's public LOA, the implementer's participation in standard setting, and the SEP holder's extension of an offer to license on FRAND terms all increase the likelihood that the infringer knew of the patent when infringing it. Depending on the specific circumstances of the case, the court might find such evidence sufficient to establish that the infringer knew that the SEPs existed. That evidence would support the conclusion that the infringer knew of the risk that its product would infringe

IEEE-SA Standards Board Bylaws § 6.2, at 16–19 (Dec. 2015), http://standards.ieee.org/develop/policies/bylaws/sb_bylaws.pdf [hereinafter IEEE Standards Board Bylaws].

[64] *See, e.g.*, ETSI, ETSI Guide on Intellectual Property Rights (IPRs) §§ 3.1.1–3.1.2, at 63 (Sept. 19, 2013) [hereinafter ETSI Guide on IPRs], http://www.etsi.org/images/files/IPR/etsi-guide-on-ipr.pdf.

[65] *See, e.g.*, IEEE Standards Board Bylaws, *supra* note 63, § 5.2.1.2, at 9.

[66] *See, e.g.*, Final Judgment at 2, Core Wireless Licensing S.A.R.L. v. LG Elecs., Inc., No. 2:14-cv-00912 (Nov. 1, 2016 E.D. Tex.), ECF No. 47.

SEPs, and that knowledge in turn would indicate that the infringer's unlicensed use of the SEPs was more than merely negligent.

B. The Infringer's Conduct in Negotiating a License for SEPs

The infringer's conduct in negotiating a license for SEPs is another important factor enabling the finder of fact to distinguish negligent infringement from egregious infringement. Evidence of the infringer's negotiation conduct might indicate that the infringer deliberately decided to disregard a known risk that its product infringed the SEPs.

Consider three familiar scenarios regarding license negotiations. In the first and simplest scenario, there is evidence that the infringer knew that its product infringed the SEPs in suit and yet refused to negotiate a license with the SEP holder. Such evidence supports a finding that the infringer consciously decided to disregard the SEP holder's rights. An implementer's categorical refusal to negotiate a license for those SEPs epitomizes the "pirate-like" behavior that justifies enhanced damages under *Halo*.

In the second scenario, the infringer's refusal to negotiate a license is constructive rather than explicit. Suppose that an infringer refuses to sign a standard nondisclosure agreement (NDA). It is, of course, standard commercial practice for parties entering into a license agreement to execute a mutual NDA.[67] The infringer of an SEP cannot refuse to execute an NDA and thereby stall the commencement of license negotiations. Such conduct by the infringer would constitute a constructive refusal to negotiate a license, and it would have the same effect as the infringer's express refusal to negotiate a license.

In the third scenario, the infringer intentionally delays the license negotiations. Courts have found that prolonged infringement supports a finding of egregious infringement.[68] Similarly, evidence of the infringer's repeated misconduct favors enhancing the damages award.[69] Evidence that the infringer unduly delayed the timely execution of a license agreement increases the infringer's culpability. To determine the reasonableness of the

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[67] *See, e.g.*, Convolve, Inc. v. Compaq Comput. Corp., 527 F. App'x 910, 915 (Fed. Cir. 2013); Radio Sys. Corp. v. Accession, Inc., 638 F.3d 785, 788 (Fed. Cir. 2011); *see also* American Bar Association, Joint Comments of the American Bar Association Sections of Antitrust Law, Intellectual Property Law, International Law, and Science & Technology Law on the Government of India's Discussion Paper on Standard Essential Patents and Their Availability on FRAND Terms 14 (Apr. 21, 2016), http://www.americanbar.org/content/dam/aba/administrative/antitrust_law/at_comments_salsiliplsci20160421.authcheckdam.pdf (arguing against a rule "condemning or unduly restricting" the use of NDAs); ETSI Guide on IPRs, *supra* note 64, § 4.4, at 65.

[68] *See, e.g.*, Read Corp. v. Portec, Inc., 970 F.2d 816, 827 (Fed. Cir. 1992); *see also* Arctic Cat Inc. v. Bombardier Recreational Prods., Inc., No. 14-cv-62369, 2016 WL 4249951, at *4 (S.D. Fla. July 27, 2016) (internal citation omitted).

[69] *See, e.g.*, J & J Sports Prods., Inc. v. El Rodeo Restaurant, LLC, No. 15-172, 2015 WL 3441995, at *3 (D. Md. May 26, 2015) (internal citation omitted); Kingvision Pay-Per-View, Ltd. v. El Rey Del Bistec Y Caridad, Inc., No. 01-cv-6562, 2001 WL 1586667, at *2 (S.D.N.Y. Dec. 12, 2001).

infringer's dilatory negotiating behavior, the finder of fact should examine whether the infringer "acted in accordance with the standards of commerce for its industry."[70] The more the infringer's negotiation conduct departs from industry practice, the more confidently the finder of fact may conclude that the infringer either intentionally infringed the SEPs or acted in reckless disregard of the SEP holder's rights, such that the infringer engaged in egregious infringement deserving an enhanced damages award. However, there is an important caveat: if the SEP holder faces pervasive infringement of its patents, the industry's overall pattern of intentional or reckless disregard for the SEP holder's rights cannot provide the infringer a defense against its own willful infringement.[71]

In *Core Wireless Licensing S.A.R.L. v. LG Electronics, Inc.*, Chief Judge Gilstrap relied on the infringer's negotiating conduct to conclude that the infringement was egregious. He awarded the SEP holder enhanced damages, in part, because LG had "invited the Core Wireless representatives to Korea one last time and indicated that it would be making a monetary offer for a license," only to "deliver[] a terse one-page presentation stating that a lawsuit at that time between the parties was 'preferable' to a license."[72] Chief Judge Gilstrap said that such a message would have been more appropriately delivered by email, and consequently he reasoned that LG's conduct was "clearly within the totality of circumstances which the Court should properly consider" when awarding enhanced damages.[73]

Conclusion

In *Halo*, the Supreme Court overruled the Federal Circuit's *Seagate* standard for enhancing patent damages for willful infringement, as provided by section 284 of the Patent Act. The Court said that egregious infringement alone could justify a court's decision to enhance the damages award, regardless of the objective reasonableness of the infringement defense. However, some standards implementers have urged courts not to read *Halo* to permit enhanced damages for the infringement of SEPs, on the rationale that

[70] Jury Instructions at 18, Arctic Cat Inc. v. Bombardier Recreational Prods., Inc., No. 14-cv-62369 (S.D. Fla. June 1, 2016), ECF No. 151; *see, e.g.*, Instructions to the Jury at 16, Imperium IP Holdings (Cayman), Ltd. v. Samsung Elecs. Co., No. 4:14-cv-00371, 2016 WL 757440 (E.D. Tex. Feb. 98, 2016).

[71] Courts have recognized the need to account for pervasive infringement in determining patent damages. *See, e.g.*, Commonwealth Sci. & Indus. Research Org. v. Cisco Sys., Inc.,. (*CSIRO v. Cisco*), No. 6:11-cv-00343, 2014 WL 3805817, at *11 (E.D. Tex. July 23, 2014) (Davis, C.J.); *see also* J. Gregory Sidak, *Apportionment, FRAND Royalties, and Comparable Licenses After* Ericsson v. D-Link, 2016 U. Ill. L. Rev. 1809, 1829; J. Gregory Sidak, *The Proper Royalty Base for Patent Damages*, 10 J. Competition L. & Econ. 989, 1019–20 (2014) (citing *CSIRO v. Cisco*, 2014 WL 3805817, at *11); J. Gregory Sidak, *Evading Portfolio Royalties for Standard-Essential Patents Through Validity Challenges*, 39 World Competition 191 (2016).

[72] Final Judgment, Core Wireless Licensing, S.A.R.L. v. LG Elecs., Inc. at 2, No. 2:14-cv-912 (E.D. Tex. Nov. 1, 2016), ECF No. 47.

[73] *Id.* at 2–3.

infringement is an expected part of standard setting. That argument, which implies that the infringement of SEPs is never so egregious as to justify the enhancement of a damages award, does not withstand scrutiny.

Enhanced damages for the infringement of SEPs are likely to be unavailable as long as the contract arising from the FRAND obligation governs the relationship between the SEP holder and the infringer. However, the SEP holder's FRAND commitment becomes moot as a matter of contract law as soon as the infringer has exhausted its rights as a third-party beneficiary of the FRAND contract by rejecting the SEP holder's FRAND offer, either expressly or by operation of law. Thereafter, the governing law reverts to the Patent Act and its interpretation by the federal courts, pursuant to which the SEP holder may seek enhancement of the damages award under section 284. As the Court emphasized in *Halo*, the decision to enhance the damages award rests in the court's discretion, provided that the infringement is egregious. Factors such as the infringer's knowledge of the SEPs' existence and the infringer's conduct in negotiating a license for SEPs inform whether the infringer has engaged in egregious misconduct justifying a punitive sanction.