No. 14-1513

In the
Supreme Court of the United States

HALO ELECTRONICS, INC.,

Petitioner,

v.

PULSE ELECTRONICS, INC.,
PULSE ELECTRONICS CORPORATION,

Respondents.

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

REPLY BRIEF IN SUPPORT OF CERTIORARI

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INTRODUCTION

Halo's petition presents two legal issues where the Federal Circuit's rules conflict with the statutory text and this Court's precedent. Pulse says little of substance on the law, and its portrayal of the facts as "disputed" is wrong given the procedural posture.

For § 284, the statutory text does not limit enhancement to cases of willful infringement, and this Court's precedent says that enhancement to compensate the plaintiff is permissible independent of willfulness. Moreover, this Court has equated willfulness with subjective bad faith and never required a threshold "objective" showing divorced from the defendant's actual conduct. The Federal Circuit's error is the same as in *Octane*—imposing a rigid artifice on a flexible statutory text. Halo did not waive any argument because it raised this error immediately after *Octane*, yet the Federal Circuit refused to correct it. Moreover, Pulse knew it was infringing from day one because it copied Halo's patents, and validity is firmly established, as explained in Halo's response to Pulse's cross-petition.

For § 271(a), the Federal Circuit's interpretation of the phrase "offers to sell, or sells … within the United States" conflicts with the statutory text and commercial usage. Pulse does not try to defend the Federal Circuit's erroneous ruling that a requirements contract is not a binding sale. Pulse tries instead to re-spin the facts, which is impermissible because the issue was decided against Halo on summary judgment, so Halo's evidence must be accepted. The presumption against extraterritoriality is inapplicable because Halo seeks to hold Pulse accountable for U.S. conduct—offers and sales contracts with Cisco in California.

ARGUMENT

I. The Federal Circuit's Section 284 Jurisprudence Warrants Review.

A. *Seagate* Conflicts with the Statute, Its Purpose, and This Court's Precedent.

1. The proper interpretation of § 284 begins and ends with its text: "the court may increase the damages up to three times the amount found or assessed." Pulse doesn't identify anything in this text that makes "willful infringement" a prerequisite to enhancement, much less that mandates the Federal Circuit's objective/subjective *Seagate* test—both fatal to Pulse's position.

Octane Fitness, LLC v. Icon Health & Fitness, Inc., 134 S.Ct. 1749 (2014), instructs that a flexible statute, with language more restrictive than § 284, cannot be administered with a rigid test. Pulse is right that *Octane* did not specifically mention § 284. But *Octane*'s methodology—sticking with the statute and rejecting a rigid objective/subjective artifice—applies equally to § 284. Pulse offers no plausible reason why *Octane*'s directive shouldn't apply here, and neither did any Federal Circuit judge. Although Pulse cites (at 15-16) briefing that distinguished §§ 284 and 285, *Octane* itself drew no such distinction. The one difference between the statutes—that § 285 refers to "exceptional cases," while § 284 does not—suggests that § 284 is even *more* flexible, and that *Octane*'s approach applies with even *greater* force here. Pulse ignores this point.

This Court's other precedent confirms that *Seagate* is wrong. Halo's petition collects (at 15-16) this Court's decisions that permit enhancement for multiple reasons, only one of which is willfulness.

Pulse erroneously characterizes those cases as holding there can be no enhancement "unless" there is willfulness. But Pulse ignores Judge Gajarsa's analysis, which demonstrated that the cases "do not hold that a finding of willfulness is *necessary* to support an award of enhanced damages," but "stand for the uncontroversial proposition that a finding of willfulness is *sufficient* to support an award of enhanced damages." *In re Seagate Tech., LLC*, 497 F.3d 1360, 1381 (Fed. Cir. 2007) (Gajarsa, J., concurring).

This Court's "long history" of interpreting § 284 and its predecessors makes this case more appropriate for review, not less. That 160 years of this Court's precedent proscribes a flexible standard makes the Federal Circuit's rigid, two-prong test less justifiable for § 284 than it was for § 285.

2. Section 284's purpose further shows *Seagate* is wrong. Contrary to Pulse's suggestion (at 14), § 284 is both compensatory *and* punitive. It compensates a plaintiff when the defendant's conduct causes added expense. *Teese v. Huntingdon*, 64 U.S. 2, 9 (1860) ("[I]f, in the opinion of the court, the defendant has not acted in good faith, *or has caused unnecessary expense and injury to the plaintiff*, the court may render judgment for a larger sum, not exceeding three times the amount of the verdict."); *Clark v. Wooster*, 119 U.S. 322, 326 (1886) (same); *Seagate*, 497 F.3d at 1378-81 (Gajarsa, J., concurring) (collecting authority that § 284 can be compensatory); Nokia Br. at 9-10. And it punishes and deters bad faith behavior. *Tilghman v. Proctor*, 125 U.S. 136, 143-44 (1888) ("[T]he court may, whenever the circumstances of the case appear to require it, *inflict vindictive or punitive damages*, by rendering judgment for not more than thrice the amount of the verdict.").

Section 284's compensatory purpose shows *Seagate* was wrong to limit enhancement to cases of willful infringement. The defendant should be liable for all actual harm it inflicts. Section 284's text ensures the court can enhance damages if the jury's award does not reflect that full harm. Ensuring adequate compensation is independent of willfulness—that's why *Teese* posited them as alternatives.

Section 284's deterrent purpose shows that *Seagate* was wrong to impose an "objective" inquiry divorced from a defendant's conduct. The analysis should turn on the defendant's actual beliefs and conduct when it decided to infringe. That is the time when we want to deter bad conduct. This Court's cases reflect this view—they refer to a defendant that "has not acted in good faith." *Teese*, 64 U.S. at 9. So does the legislative history—it says that enhancement targets someone "thinking" he can infringe without penalty. *See* S. Rep. No. 79-1503, at 2 (1946) ("[T]he present discretion to award triple damages, will discourage infringement of a patent by anyone thinking that all he would be required to pay if he loses the suit would be a royalty."). But the Federal Circuit requires district courts to ignore a defendant's actual pre-suit conduct if the defendant develops a non-sham defense post-suit. *Carnegie Mellon Univ. v. Marvell Tech. Gp.*, __ F.3d __, 2015 WL 4639309, at *12 (Fed. Cir. Aug. 4, 2015) (citing *Halo* for the proposition that *Seagate's* objective prong "is not met when the infringer, whatever its state of mind at the time of its infringement, presents in the litigation a defense, including an invalidity defense, that is objectively reasonable (though ultimately rejected)"). That thwarts the statutory goal of incentivizing guilty defendants to license or design around the patent *before* the patentee must file suit.

Pulse wrongly defends *Seagate* (at 18-19) by saying the case imported the objective/subjective test from *Safeco Ins. Co. v. Burr*, 551 U.S. 47 (2007). But *Safeco* addressed the Fair Credit Reporting Act and cautioned that "'willfully' is a 'word of many meanings whose construction is often dependent on the context in which it appears.'" *Id.* at 57. So it is wrong to blindly import *Safeco* into § 284, which has a different text and precedent, for the same reasons *Octane* held it wrong to import an antitrust standard into § 285. Moreover, bad faith conduct is *always* willful. Although *Safeco*'s discussion of the two-prong test for "objective recklessness" identifies one category of "willful" misconduct, it doesn't change the fact that bad faith actors are equally "willful." *Safeco*, 551 U.S. at 59 (explaining the statute covers "both knowing and reckless disregard of the law" and that "knowing violations are sensibly understood as a more serious subcategory of willful ones"). Anyway, the Federal Circuit is misinterpreting *Safeco*, because *Safeco* analyzed the "objective" prong based on what the defendant actually relied upon at the time, while the Federal Circuit does not. *See* Independent Inventor Groups Br. at 10-11.

B. This Case Is an Excellent Vehicle.

Pulse doesn't dispute the issues here are important, and its arguments (at 5-13) that this case is a bad vehicle are meritless.

1. Halo Did Not Waive Its Challenge to *Seagate*.

Halo did not waive its challenge to *Seagate* as an inappropriate approach to § 284. This Court decided *Octane* after the parties' Federal Circuit briefs were

submitted. Halo thus raised the issue at the first opportunity—oral argument—and told the panel that *Octane* undermined the existing framework for enhancing damages. *See* http://1.usa.gov/1ho3EAz at 27:25-28:34. Pulse did not treat the issue as waived then, and volunteered that "I don't have a problem reexamining" *Seagate* in light of *Octane*. *Id*. at 19:11-18. The issue was thus squarely presented to the panel, and a concurrence thoughtfully addressed it. (App. 25a-31a.) Halo's ensuing *en banc* petition argued (at 11-12) that *Seagate*'s "rigid, *per se* approach is inconsistent with the text and purpose of § 284," and that "intervening Supreme Court precedent strongly counsels against a rigid rule like the one the panel was forced to apply." Two judges dissented from the denial of rehearing, for many of the reasons Halo raises here. (App. 146a-154a.) So the issue was well-vetted below.

Pulse's formalistic waiver arguments conflict with this Court's precedent. Halo has sought enhanced damages—the underlying issue here—since the complaint. (A294-95.) It doesn't matter that Halo's submissions to the district court and briefs to the panel focused on the then-governing legal rule (*Seagate*) and didn't ask for relief (overruling *Seagate*) that neither could provide. *MedImmune, Inc. v. Genentech*, 549 U.S. 118, 125 (2007). Moreover, Halo has properly refined its arguments here to include additional support for the same point argued below—*Seagate* conflicts with the text of § 284. *Nelson v. Adams USC, Inc.*, 529 U.S. 460, 469 (2000).

The Federal Circuit has previously considered all the arguments Halo makes here. *Seagate* rejected two judges' plea to not engraft a willfulness requirement onto § 284. Moreover, the *en banc* court here rejected two judges' attempt to eliminate the rigid, two-prong

test for willfulness. So the Federal Circuit is not simply waiting for another case to more clearly present these issues; its mind is already made up.

2. Changed Law Would Impact This Case Because the Facts Support Enhancement.

Halo's petition shows (at 4-6), with supporting citations, that this case is a quintessential candidate for enhancement. Pulse saw Halo's patents in 1998, immediately copied Halo's patented design, spurned Halo's attempts to discuss a license, conducted a "cursory" investigation in 2002 (years after infringement began), never made a "conscious decision" that the patent was invalid, and concocted a post-suit obviousness defense that contradicted Pulse's own prior publications teaching away from the invention.

Pulse says (at 6-7) these facts are "disputed." But the only fact-finder who considered them—the jury—found that Pulse acted in bad faith and copied. (A210, A233.) Pulse's quote from the jury instruction (at 11) shows exactly what the jury found when it deemed Pulse a willful infringer after considering "all of the facts." (*Id.*) The courts below found no willfulness only by ignoring Pulse's actual conduct and focusing on what a hypothetical company might have thought. (App. 64a-65a, 21a-22a.) That aside, any true "disputes" can be resolved on remand after this Court announces the right legal standard.

Pulse is wrong to suggest (at 17) that changed law wouldn't help Halo. The district court was not permitted to apply the correct substantive standard for enhancement under § 284. So even if the right standard of appellate review becomes abuse of discretion, the district court must first exercise discretion using the

substantive law before any appellate court could assess whether it had been abused. Under the right standard, the court could certainly conclude, like the jury, that Pulse acted in bad faith, or that enhancement is warranted for another reason.

In fact, this case's procedural posture makes it the perfect candidate for fixing the enhancement standard—the jury found Pulse willful but the district court couldn't properly assess whether to enhance because it was constrained by *Seagate*. If this Court is also interested in reevaluating the appellate standard of review, the co-pending certiorari petition in *Stryker* would be a good companion (just as *Highmark* was a companion for *Octane*), because a more deferential standard could result in the enhancement there being affirmed, even if *Seagate* were retained.

II. The Federal Circuit's § 271(a) Jurisprudence Warrants Review.

A. The Federal Circuit Misinterpreted the "Sells" and "Offers to Sell" Provisions.

Pulse largely ignores the legal arguments in Halo's petition, instead presenting its own spin on the facts. But these issues were resolved against Halo on summary judgment, so this Court doesn't need to make any "fact-specific findings," as Pulse argues (at 27). The Court must accept Halo's evidence as true. That evidence shows that Pulse both makes commercial offers to Cisco, and enters requirements contracts with Cisco that set a binding price and quantity. (*See* Petition at 7-8.) The Federal Circuit legally erred by holding these are not infringing U.S. sales and offers under § 271(a).

1. With respect to whether Pulse "sells … within the United States" to Cisco, Pulse doesn't dispute that

a requirements contract is a sale. Nor could Pulse—"the substance of the sale is the agreement to sell, and its acceptance," *Norfolk & W. Ry. Co. v. Sims*, 191 U.S. 441, 447 (1903), and Halo's petition (at 24-26) shows that requirements contracts are binding agreements.

Instead, Pulse's main argument (at 31) is that its discussions with Cisco are "mere negotiations" and non-binding "forecasts." But Pulse ignores the contrary evidence that must be taken as true, including:

- Pulse's President testifying that "[w]hen we submit that price, we're agreeing, if Cisco orders that number of parts, we will give them that price," (A15443-44);
- Pulse's customer support materials instructing employees dealing with Cisco's manufacturers to "ALWAYS USE CISCO CONTRACT PRICING," (A15463);
- An email from Pulse's North American Sales Director to Cisco assuring them that Pulse "take[s] Cisco pricing as gospel," (A15825);
- An email from Cisco to Pulse stating that a "price higher than the price between Cisco (me) and Pulse (you), Cisco will not honour," (A15449);
- Cisco instructs its manufacturers to obtain Pulse products based on the agreed price and allocation and rebukes them if they don't. (A15053-56, A15063-64; A15130-34, A15449.)

Pulse and Cisco make their requirements contract in the U.S.—both are in California, and a master agreement adding further terms is governed by California law. (A15135, A15056-57.) Therefore, a jury could

conclude that Pulse and Cisco have a U.S. requirements contract. Pulse's block quotes from the lower court opinions don't help its cause—those opinions ignored this evidence because of their legal error in thinking that a requirements contract cannot be a sale under § 271(a). This Court should reject the Federal Circuit's patent-law specific rule as to what types of contracts satisfy the statute.

Pulse wrongly invokes the presumption against extraterritoriality, but, as Halo's petition explained (at 28-29), the presumption doesn't apply here. Halo is focused on Pulse's U.S. conduct—negotiating and contracting in the U.S. That Pulse's other activities (manufacturing, invoicing, delivering) occur outside the U.S., doesn't change the fact that the "substance of the sale," *i.e.*, the agreement, occurs within the U.S. *Norfolk*, 191 U.S. at 447.

2. Pulse is also liable because it "offers to sell … within the United States" the patented invention. Again, Pulse is largely silent on Halo's legal arguments, and mainly argues (at 29) that it does not make offers to Cisco. But Pulse's President testified that Pulse communicates binding offers to Cisco, saying that "[w]hen we submit that price, we're agreeing, if Cisco orders that number of parts, we will give them that price." (A15443-44.) That's an offer. The Law Professors' *amicus* brief in *Transocean* thus had the facts here exactly right, and they drew the right conclusion—it is "perplexing" there would be no liability "when the offer is in fact made within the United States." The district court didn't mention those facts because it was operating under the wrong legal standard.

Pulse's reliance (at 39) on Judge Newman's concurrence in *Rotec Indus., Inc. v. Mitsubishi Corp.*, 215

F.3d 1246 (Fed. Cir. 2000), is misplaced. Judge Newman observed that § 271(i) restricts infringing "offers to sell" to offers for which the underlying sale occurs within the patent term and thought that, by analogy, the underlying sale must also be in the U.S. But § 271(i) says nothing about the location question. If anything, § 271(i) supports Halo's position because it shows that when Congress wanted to limit the scope of "offers to sell," it did so expressly. Therefore, the phrase "offers to sell … within the United States" should have its regular grammatical meaning—that there is infringement if the *offer* occurs within the United States, as it did here.

Pulse criticizes Halo (at 35) for saying its position is "broad." But the statute's breadth is a deliberate Congressional choice: the "offers to sell" provision was added in 1994 to reach conduct that hadn't previously been covered and to prevent "generating interest" in the patented invention in the U.S., which is precisely what Pulse's offers to Cisco do. *3D Sys., Inc. v. Aarotech Labs., Inc.*, 160 F.3d 1373, 1379 (Fed. Cir. 1998).

B. This Case Is an Excellent Vehicle.

Halo's petition (at 31-34) demonstrates that the § 271(a) issue is important, this Court has previously expressed interest in it, and a group of law professors described this case as the "perplexing" result of *Transocean*. Pulse argues (at 38) that the main concern with *Transocean* was that U.S. patent law would reach foreign conduct. But that underscores why the Federal Circuit's jurisprudence needs review. The Federal Circuit is getting it wrong in both ways—*Transocean* had the Federal Circuit finding liability for offers and agreements that occur wholly abroad,

while this case has the Federal Circuit finding no liability for offers and agreements occurring wholly in the U.S. This Court thus needs to step in, eliminate the Federal Circuit's patent-specific view of what constitutes an "offer" and a "sale," and ensure the statute covers U.S. conduct but not foreign conduct.

CONCLUSION

As explained above, *certiorari* should be granted.

Respectfully submitted,

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