

Mediation - Do Claims for Enhanced Damages; Attorney Fee Shifts; and Sanctions Affect Mediation Success?

When *Halo* was decided by the Supreme Court, it is fair to say that judges' reactions were muted: a quiet sigh that some very real difficulties that rested on their shoulders were in the past. In-house Counsel reacted very differently, now presented with many new problems in dealing with letters accusing their companies of patent infringement. And some law firms, that had once enjoyed a big business in writing opinions of counsel to inoculate against a charge of unreasonableness, reacted by getting ready to start this engine running again.

The Differing Reactions to Halo

Once the "objective" prong of willfulness was rendered obsolete, judges no longer had to wrestle with the difficult job of deciding "objective willfulness " as a matter of law. These opinions were a challenge to write, and they were reviewed pursuant to a *de novo* standard because they were deemed issues of law.

And District Judges no longer had to deal with the difficult task of deciding whether and how to stage the trial --- a much more complex job for the judge than counsel often realize. Pre-*Halo*, Judges had to decide trial management questions such as:

1. should all evidence, including "subjective willfulness", be put in during the jury trial, even though that issue would be meaningless if the Court later found that there was no "Objective " unreasonableness? Was that fair?

2. Must the "Objective " prong be decided before the Case goes to the jury? If so, that means either deciding it as a matter of summary judgment (and risking that an appellate court will find an issue of fact that was worthy of a jury trial); or pulling several all-nighters to write an opinion, in the midst of the trial, to decide the issue, knowing that the jury is forced to wait, without knowing or understanding the reason for the delay?

3. If the Judge chose to bifurcate the evidence, so that only infringement evidence was admitted during the jury trial, would there be endless side-bars during the first trial, where the court would have to decide at the spur of the moment whether a piece of evidence or testimony goes to infringement or willfulness ? Most experienced judges know that, once any bright line is created, whether on discovery topics or trial issues, inevitable fights will break out between lawyers about every question and document: is it relevant to the scope of the issue, or not? Judges also know that Juries hate sidebars, with its white noise machine obliterating all but the loudest attorney. The jurors at first feel left out of a conversation; then, if it goes on longer than 15 seconds, they start speaking among themselves and don't like being quieted back down when the sidebar ends.

4. If the judge decided not to bifurcate, and to let all of the evidence in, how could that judge make sure that the evidence of willfulness did not so pervade the case that it, in reality, had an impact on the basic issue of infringement itself?

The decision in Halo ended these problems for judges, and their reaction in general was a sense of relief at a burden alleviated, and assumption that trials would go back to the time before this dual standard trial management dilemma was imposed on

them. (Some judges quietly wondered if their appellate colleagues who wrote Seagate even knew the trial management challenges that the dueling reasonableness standards presented.). Judges that I spoke to shortly after *Halo* was decided did not think that it would otherwise have much of an impact, because they knew that, regardless of what a jury found, their own opinion about the kind of conduct that warranted enhanced damages would not change.

Lawyers ---- especially inn-house general counsel ---- reacted very differently, as I learned first hand when I spoke on the topic of Halo at a conference for in-house counsel in Silicon Valley. They legitimately are very worried about the effect of this new standard, and what it means to them as the lawyers responsible for giving sage advice to their management when each of hundreds of letters arrives with an accusation of infringement. How seriously should the letter be taken? What is the best response? Should there be a response that will inevitably lead down a road to negotiation over what may be a silly accusation?

Or should there be no response to the letter writer, but an in-house response to form a team to look at the accusation and recommend to management whether or not an opinion of counsel is a wise course of action? How disruptive and costly is it to create that team? Will they have to erect walls between that team and the team that works with outside counsel if litigation ensues at a later date? While Halo doesn't mandate an opinion of counsel, unlike the earlier era when it was a mandatory requirement, would it be smart to do anyway as an inoculation against a later battle over subjective reasonableness, if that case ever went to trial ?

How does s/he , the general counsel, decide whether that one of 100 or 1,000 letters accusing her company of infringement is the one worthy of a \$50,000 opinion of

counsel? If every letter led to a decision to obtain that opinion letter, what happens to her litigation budget? If she is cost-effective in her choice of when to pay for that opinion letter, and when not to seek one, will her job security rest on the ultimate outcome of that decision, which must be made at a time when virtually nothing is known about the merits of the accusation.

Whose Position is Strengthened and Whose Position is Weakened by Halo?

Halo makes it harder to hire a brilliant law firm to create an "after-the-fact" theory of objective reasonableness. This prong of the *Seagate* test meant that this practice was eliminated. Even the Supreme Court had a few choice words for what it viewed as gamesmanship in developing a theory that the defendant hadn't even thought about when its infringing conduct occurred: The *Seagate* test, the high court observed, would absolve "wanton and malicious pirate[s]" from punishment by allowing defendants to insulate themselves with reasonable, but ultimately unsuccessful, defenses. [There is something naive about the Supreme Court's writing, because it fails to even consider the impact of its opinion on the plight of a perfectly legitimate company accused of infringement everyday, with letters that can be either perfectly genuine, or perfectly contrived as an invitation to pay to avoid the disruption of litigation, regardless of the merits of the infringement accusations.]

Halo makes it easier for the accuser to get its case to a jury, because questions of subjective intent are often very fact-laden, and a court has to write a virtually bullet-proof decision upon a Motion for Summary Judgment to conclude that no reasonable finder of fact could find subjective willfulness on the facts developed in discovery.

Halo makes the burden of proof easier for the accuser, because it is reduced from "Clear and Convincing" to "Preponderance". While counsel that I speak with often think that courts view this as a distinction without a difference, I never thought that it was, and neither, in my opinion, do most judges who were my colleagues.

So, thus far, one could sensibly argue that *Halo* tilted the balance in favor of plaintiffs accusing defendants of infringement.

However, that may be a bit too facile. The Supreme Court described the type of conduct worthy of enhanced damages in very dramatic terms:

"The sort of conduct warranting enhanced damages has been variously described in our cases as willful, wanton, malicious bad faith, deliberate, consciously wrongful, flagrant, or --- indeed--- characteristic of a pirate."

By this language, the Court cautioned against awarding enhance damages in garden variety cases. In his concurrence, Justice Breyer described these cases as ones where "the evidence shows that the infringer knew about the patent *and nothing more.*" So, at least we know that proof of knowledge of a patent, and a decision to design around it, or to evaluate it and determine that it is not infringed by the putative defendant's product or process, without more, will not lead down the road to enhanced damages.

Halo also points out that there is a safety valve for the defendant in the fact that a jury's finding of willfulness will not automatically lead to enhanced damages. Rather,

and importantly, it remains in the District Court's discretion whether or not such an enhancement is truly warranted, and the degree of such enhancement, if any.

These factors: The requisite proof of pirate-like behavior; the need for more evidence than mere knowledge of the patent; and the need to convince a District Court judge to award enhanced damages....all tilt the balance of negotiating power back against the plaintiff.

The Post-Halo Cases Applying the Halo Standard

There have been only a handful of cases in this category, so it is too soon to see any trends. In one case, where a jury found willful infringement under the pre-*Halo* standard, the District Court granted the defendant's JMOL of no infringement; then, after the *Halo* decision, the Federal Circuit vacated the district court decision and remanded to consideration of both willful infringement and enhanced damages.

In another case, a jury had found willful infringement under the old *Seagate standard*, by clear and convincing evidence. However, that evidence was very sparse [in-house counsel knew of the patent only because of receipt of a 100-page notice of allowance in which the patent at issue in the case was cited only once, and then only by its number]. The court found that this did not meet the level of evidence to prove willfulness and granted a JMOL for non-willfulness.

These cases, discussed above, tilt the balance in favor of defendants. But there are other cases that will make plaintiffs feel empowered: in cases decided in the post-*Halo* era, juries have found willful infringement in 3 out of 4 cases. Again, the sample size is too small for generalization. And, again, the in-house general counsel would not

have had the benefit of awareness of the *Halo* decision in order to plan the company's pre-suit conduct with a view toward evidence of "non-pirate-like" standards. Nor would litigation counsel in those few cases ----developed in the "pre-*Halo*" world, but tried post - *Halo* ---- have had the ability to develop discovery and conduct during the litigation phase to stay out of the realm of the "pirate". Nor do we yet know whether the District Judges in those cases also decided to exercise their discretion to award enhanced damages, and by how much.

Only time will let us develop a factual framework for when conduct is sufficiently "pirate-like" to convince a District Judge to actually award enhanced damages under the statute that permits him or her the discretion to do so. And when, if ever, will there be a reversal by the Federal Circuit for abuse in the exercise of that discretion? In recent years, the Supreme Court has consistently commented upon the importance of the role of the District Judge, who actually sees the trial and hears the motions that are part of the pre-trial skirmish, in making these discretionary calls. As a result, there are very few reversals for abuse of discretion, which will make the District Court decision likely to be the final word on its discretionary enhancement decisions when it is evaluating claims of "behavior like a pirate."

By now, you are all probably laughing, perhaps even out loud, about visions of pirates and making motions and arguments to the jury about lads with eyepatches and big hats, and flags with skull & crossbones! But this is the new reality, thanks to an unusually colorful Supreme Court opinion. In this era, I know of at least one case where a judge (dealing with a charge conference in a case tried where *Halo* was decided in the midst of trial) declined a request for a jury instruction using the "pirate-like" adjectives, but did allow counsel to argue to the jury in his summation using the "pirate" word. And

I've heard about others where the judge did allow the jury instruction to include the direct language of the Supreme Court. After all, how better to avoid reversal for an incorrect standard than to use the very words of our highest court?

Effect of These Various "Empowering" and "Disempowering" Factors on Mediations.

As I am sure the reader can understand, I am forbidden by the terms of the same Confidentiality Order that counsel and parties sign to discuss anything said or done at any mediation that I conduct. Therefore, my comments have been limited intentionally to discuss those elements of the *Halo* opinion that empower one side or the other.

The bottom line is that this decision only rarely affects the actual mediation itself. That is because the same facts that would now be described with skill & crossbones [rather than a halo ;-)] were always bad facts. They are often emails, and they will continue to be emails. It is a fact of human nature that electronic email seems to people to be more like conversation than like letters. Therefore, the carefulness devoted to content that letters receive has not been accorded to this other form of "mail."

I have conducted Mediations where the following examples have been part of the Mediation negotiation:

the evidence admitted at an earlier trial between the same parties included aggressive emails planning aggressive tactics had previously caused a jury to find for the opposite side;

the judge has already granted attorneys' fees, although not in the total amount claimed;

one side was certain that it would not only win infringement, but also win a post-verdict application for injunctive relief and attorneys' fees;

counsel knew that evidence of subjective willfulness would be introduced into the trial if the case did not settle;

counsel on both sides wrote Mediation Statements with certainty that their position would prevail if the case went to trial, and that each would get both enhanced damages and attorneys fees upon winning.

Only very rarely, in my opinion, do the "enhancement" factors result in a mediation settlement figure that is higher than it would have been if the chest-pounding exclamations of impending victory were not made. Anticipatory self-congratulatory talk rarely leads to mediation success, and instead can too often derail the road to settlement when the client believes his attorney's aggressive predictions. (In private, some counsel can be heard to moan that his client "drank the Kool-Aid" that he was spinning as a negotiation tactic). Those words, meant to show strength of position, can be counterproductive if they create mediation failure. Then the attorney may be forced to trial, and tested by the petard of his own aggressive predictions. That is not a comfortable place to be.

When I sense this conduct is in the offing, which is relatively easy to do after reading the pre-mediation briefing papers, I always ask counsel whether they think that an opening joint session is a good idea. While "Mediation 101" calls for such a joint session, "Mediaton 301" would counsel against it in certain circumstances: an experienced mediator can tell when counsel feels the need to make a war-like opening

statement to the other side, so that his client sitting next to him feels that he is well-represented by a tough lawyer. Sometimes that attorney will tell the mediator that he would feel compelled to speak in hawkish tones in a joint session where his client is there at the table, and that he knows that this kind of talk can be counterproductive to achieving a settlement that he hopes will occur. And sometimes counsel of the other side will say that he understands full well that gladiator speech is bad for mediation, but if his adversary does it at the joint session with clients, he will feel compelled to respond in like tones.

When I hear this tenor of pre-mediation talk, I tell everyone at the opening session that our joint session will consist of introductions, and the signing of a Confidentiality Order, and that counsel and I know the case so well that we will proceed directly into separate caucus sessions. I may also explain to the entire room that we may have a further joint session as the day proceeds if I hear anything that persuades me that one side does not understand the facts or reasoning of the other side's position on a particular issue, in which case we will convene jointly for an explanation or presentation that will require no response, or that I will get counsel together alone, in the absence of clients if counsel believe that would be more productive, for an informative explanation of the genuine difference of views on merits issues that are driving the outcome of the settlement.

Thus far, the likelihood of enhanced damages or sanctions has never been one of those topics requiring a joint discussion. And when I hear about this at private caucuses, I patiently explain that cases will rarely settle because of fears of enhanced damages or settlement, so that it is more productive to focus on the substance of the dispute than the degree of colorful conduct by either the company, or its counsel.

