

Supreme Court Redefines Availability of Enhanced Damages in Patent Cases

June 13, 2016

Seagate "two-part" test for enhancement of damages is eliminated, more flexible inquiry with lower standard of proof adopted

In a highly anticipated decision regarding damages in patent infringement cases, the Supreme Court announced its unanimous decision on June 13, 2016, in the cases of *Halo Electronics Inc. v. Pulse Electronics Inc. et al* and *Stryker Corporation et al. v. Zimmer, Inc.* The Court found that the decisions in each case, based on the prior *Seagate*^[1] two-part test for willfulness, were inconsistent with §284 of the patent act. The Court remanded both cases.

The Court said that "although there is 'no precise rule or formula' for awarding damages under §284, a district court's 'discretion should be exercised in light of the considerations' underlying the grant of that discretion."^[2] The Court noted approvingly the policy ensclosed in *Seagate* that "enhanced damages are generally appropriate under §284 only in egregious cases."^[3]

The Court criticized the two-part test adopted by *Seagate* saying "[t]he principal problem with *Seagate*'s two-part test is that it requires a finding of objective recklessness in every case before district courts may award enhanced damages. Such a threshold requirement excludes from discretionary punishment many of the most culpable offenders, such as the 'wanton and malicious pirate' who intentionally infringes another's patent—with no doubts about its validity or any notion of a defense—for no purpose other than to steal the patentee's business."^[4]

The Court noted, though, that enhanced damages were not meant for "a typical infringement case, but are instead designed as a 'punitive' or 'vindictive' sanction for egregious infringement behavior. 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."^[5]

Willfulness, the Court said, is the conduct for which enhanced damages "should generally be reserved."^[6] Also, the Court found that "[t]he *Seagate* test is also inconsistent with §284 because it requires clear and convincing evidence to prove recklessness."^[7]

The Court also overturned Federal Circuit precedent which held that recklessness in infringement must be proven under a clear and convincing standard. Generally, the Court's reasoning echoed its decision in *Octane Fitness* which evaluated the provision and award of attorneys' fees under §285 of the Patent Act. "Like §285, §284 'imposes no specific evidentiary burden, much less such a high one.' And the fact that Congress expressly erected a higher standard of proof elsewhere in the Patent Act, see 35 U. S. C. §273(b), but not in §284, is telling. Furthermore, nothing in historical practice supports a heightened standard. As we explained in *Octane Fitness*, 'patent-infringement litigation has always been governed by a preponderance of the evidence standard.' Enhanced damages are no exception."^[8]

The questions for which certiorari was granted in both cases collectively addressed when it is appropriate for a district court to award "enhanced damages" under §284 of the Patent Act, and what impact copying has on such a determination.^[9] That law provides simply that "the court may increase the damages up to three times the amount found or assessed." Whether damages are enhanced has included an inquiry into the infringers "willfulness" in infringing the patent. The Federal Circuit previously applied a two-part test, comprising an "objective" inquiry as to the defenses to infringement offered, followed by a "subjective" prong: an inquiry into the infringer's intent. Under the Federal Circuit's *Seagate* test, "[t]he state of mind of the accused infringer is not relevant."^[10] The subjective prong asked whether "this objectively-defined risk (determined by the record developed in the infringement proceeding) was either known or so obvious that it should have been known to the accused infringer."^[11] The Federal Circuit also had held that an inquiry into objective recklessness in infringement "is best decided by the judge as a question of law subject to de novo review."^[12] The question of "whether the infringer deliberately copied the ideas or design of another" could also support increasing damages.^[13]

The district court in *Stryker* found the defendant's infringement to be willful, finding that Zimmer "all but instructed its design team to copy Stryker's products."^[14] Nonetheless, the Federal Circuit reversed finding that "[a]n objective assessment of the case [shows that Zimmer presented reasonable defenses to all of the asserted claims of Stryker's patents]."^[15]

In the *Halo* case, the district court judge ruled that despite a jury finding of infringement, and that the infringement was "highly probable," the Court nonetheless ruled that the plaintiff had "not proven by clear and convincing evidence that Pulse acted despite an objectively high risk of infringement."^[16] The Federal Circuit agreed, finding that "[t]he court properly considered the totality of the record evidence, including the obviousness defense that Pulse developed during the litigation, to determine whether there was an objectively-defined risk of infringement of a valid patent."^[17]

What does this decision mean?

With today's ruling, the Court follows a path that many predicted of dialing back a test formulated by the Federal Circuit, and paralleling its reasoning in the *Octane Fitness* case. The availability of enhanced



damages will continue to be a significant consideration for both plaintiffs and defendants in patent cases. It may be expected that such damages will be awarded more frequently, especially in light of the removal of the clear and convincing evidence standard and objective inquiry prong of the willfulness inquiry. As such, and in light of today's ruling, those who face threats of patent infringement will be well advised to consult with counsel to mitigate the risk of being found liable for enhanced damages.

The Court did not address the *Seagate* cases' commentary on the availability of enhanced damages when a patentee does not seek an injunction, and the Court's opinion only briefly addresses the role of opinions of counsel in avoiding enhanced damages. These are important questions upon which litigants should continue to consult with their counsel.

If you have questions or would like to discuss this decision further, please contact your Lathrop Gage attorney or the attorney listed above.

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

[2] *Halo Electronics, Inc. v. Pulse Electronics, Inc.*; *Stryker Corp. v. Zimmer, Inc.*, Nos. 14-1513 and 14-1520, 579 U.S. ____ (2016) (slip op. at 8) (citations omitted).

[3] Slip Op. at 9.

[4] Slip Op. at 9. (citations omitted).

[5] Slip Op. at 8.

[6] Slip Op. at 11

[7] Slip Op. at 12.

[8] Slip Op. at 12 (internal quotations omitted)

[9] *Halo Electronics, Inv. v. Pulse Electronics, Inc.*, 193 L.Ed.2d 289, No. 14-1513, (U.S. Oct. 19, 2015)

[10] *In re Seagate Tech., LLC*, 497 F.3d at 1371.

[11] *Id.*

[12] *Bard Peripheral Vascular, Inc. v. W.L. Gore & Assocs., Inc.*, 682 F.3d 1003, 1007 (Fed. Cir. 2012).

[13] *Read Corp. v. Portec, Inc.*, 970 F.2d 816, 827 (Fed. Cir. 1992).

[14] *Stryker Corp. v. Zimmer, Inc.*, 782 F.3d 649, 661 (Fed. Cir. 2014).

[15] *Id.*

[16] *Halo Elecs., Inc. v. Pulse Elecs., Inc.*, No. 2:07-CV-00331-PMP, 2013 WL 2319145, at *1, *15 (D. Nev. May 28, 2013).

[17] *Halo Elecs., Inc. v. Pulse Elecs., Inc.*, 769 F.3d 1371, 1382 (Fed. Cir. 2014).